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LEGISLATIVE HISTORY

Public Law 87-343
S. 1927

TABLE OF CONTENTS

Index and summary of S. 1927	1
Digest of Public Law 87-343	2

INDEX AND SUMMARY OF S. 1927

May	17, 1961	Rep. McIntire introduced H. R. 7133 which was referred to the House Agriculture Committee. Print of bill as introduced.
May	22, 1961	Sen. Ellender introduced S. 1927 which was referred to the Senate Agriculture and Forestry Committee. Print of bill as introduced.
Aug.	11, 1961	Senate subcommittee voted to report to the full committee S. 1927, with amendments.
Aug.	16, 1961	Senate committee reported S. 1927 with amendments. S. Report No. 747. Print of bill and report.
Aug.	21, 1961	Senate passed S. 1927 as reported.
Aug.	22, 1961	S. 1927 was referred to the House Agriculture Committee. Print of bill as referred.
Aug.	25, 1961	House subcommittee voted to report to the full committee S. 1927.
Aug.	30, 1961	House committee voted to report (but did not actually report) S. 1927.
Sept.	5, 1961	House committee reported S. 1927 without amendment. H. Report No. 1112. Print of bill and report.
Sept.	18, 1961	House passed S. 1927 without amendment.
Oct.	3, 1961	Approved: Public Law 87-343.

DIGEST OF PUBLIC LAW 87-343

AMENDMENTS TO FARM CREDIT LAWS. Amends the Federal Farm Loan Act, as amended, so as to permit the amortization plan for Federal land bank loans to provide for installments more frequently than semiannually, permit Federal land bank loans to be made to a farming corporation if owners of its stock assume personal liability to the extent prescribed by the Farm Credit Administration (instead of present requirement that owners of 75 percent of the stock of the corporation must be engaged personally in farming operations on the farm to be mortgaged as security for the loan and the owners of a like amount of stock must assume personal liability for the loan), and to increase from 5 to 7 years the maximum maturity permitted for loans, advances or discounts by a Federal intermediate credit bank.

Amends the Farm Credit Act of 1933, as amended, so as to combine the Federal intermediate credit bank and production credit association revolving funds into a single fund available for the same purposes, require each production credit association to set aside each year earnings equal to one-half percent of its outstanding loans for a bad debt reserve until such reserve equals three and one-half percent of outstanding loans, after which increases in the reserve are permitted but not required, and permit retirement of interests in any bank for cooperatives held by a cooperative which is liquidated or dissolved.

87TH CONGRESS
1ST SESSION

H. R. 7133

IN THE HOUSE OF REPRESENTATIVES

MAY 17, 1961

Mr. McINTIRE introduced the following bill; which was referred to the Committee on Agriculture

A BILL

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) section 12 of the Federal Farm Loan Act, as
4 amended (12 U.S.C. 771), is amended—

5 (1) by substituting “a fixed number of one or
6 more installments each year” for “a fixed number of
7 annual or semiannual installments” in paragraph “Sec-
8 ond” thereof; and

9 (2) by substituting the following for all that comes
10 after “but no such loan shall be made to a corporation”
11 in the fourth sentence of paragraph “Sixth” thereof:

1 “unless the principal part of its income is derived from
2 farming operations and unless owners of stock in the
3 corporation assume personal liability for the loan to the
4 extent required under rules and regulations prescribed
5 by the Farm Credit Administration.”.

6 (b) Section 202 (c) of the Federal Farm Loan Act,
7 as amended (12 U.S.C., supp. II, 1033), is amended by
8 changing the word “five” to the word “seven”.

9 SEC. 2. The Farm Credit Act of 1933, as amended, is
10 amended—

11 (a) by adding the following subsection to section 5
12 thereof (12 U.S.C. 1131i) :

13 “(f) The revolving funds created by subsections (a)
14 and (e) of this section are hereby combined into a single
15 revolving fund which shall be available for all purposes for
16 which both such funds were heretofore available, and refer-
17 ence in any provision of law to the revolving fund created
18 by said subsection (a) or said subsection (e) shall be
19 deemed a reference to the single revolving fund created by
20 this subsection.”;

21 (b) by changing section 22 (a) thereof (12 U.S.C.
22 1131f (a)) to read:

23 “(a) Each production credit association shall, at the
24 end of each fiscal year, apply the amount of its earnings
25 for such year in excess of operating expenses (including

1 provision for valuation reserves against loan assets in an
2 amount equal to one-half of 1 per centum of loans outstand-
3 ing at the end of the fiscal year, to the extent that earnings
4 for the year in excess of other operating expenses permit,
5 but no additions thereto shall be made which would increase
6 such reserves above 5 per centum of loans outstanding at the
7 end of the fiscal year), first, to the restoration of the impair-
8 ment, if any, of capital; and, second, to the establishment and
9 maintenance of a surplus account, the minimum amount of
10 which shall be prescribed by the Federal intermediate credit
11 bank.”;

12 (c) by inserting in the first paragraph of section
13 41 thereof (12 U.S.C. 1134c) immediately before the
14 semicolon at the end of “(a)” the words “, but no loan
15 shall be made to any such cooperative association unless
16 at least 75 per centum, or such higher per centum as the
17 board of directors of a bank for cooperatives determines,
18 of the voting rights are held by agricultural producers or
19 other cooperative associations eligible to borrow from
20 such bank” and by substituting in the second paragraph
21 of said section 41 for the words “as defined in the Agri-
22 cultural Marketing Act, as amended,” the words “eli-
23 gible for loans under the foregoing provisions of this
24 section”;

25 (d) by inserting in the first paragraph of section 34

1 thereof (12 U.S.C. 1134j) immediately before the semi-
2 colon at the end of “(a)” the words “, but no loan shall
3 be made to any such cooperative association unless at
4 least 75 per centum, or such higher per centum as the
5 board of directors of the Central Bank determines, of
6 the voting rights are held by agricultural producers or
7 other cooperative associations eligible to borrow from
8 such bank” and by substituting in the last paragraph of
9 said section 34 for the words “as defined in the Agricul-
10 tural Marketing Act, as amended,” the words “eligible
11 for loans under the foregoing provisions of this section”;
12 and

13 (e) by adding the following subsection to section
14 36 thereof (12 U.S.C. 1134l) :

15 “(d) Notwithstanding any other provision of this Act,
16 in the case of liquidation or dissolution of any present or
17 former borrower from a bank for cooperatives, the bank
18 may, in accordance with rules and regulations prescribed by
19 the Farm Credit Administration, retire and cancel any capi-
20 tal stock or allocated surplus and contingency reserves or
21 other equity interest in the bank owned by such borrower at
22 the fair book value thereof, not exceeding par, and, to the
23 extent required, corresponding shares and allocations or other
24 equity interests held by the regional bank in the Central
25 Bank shall be retired.”

A BILL

To amend further the Federal Farm Loan Act
and the Farm Credit Act of 1933, as
amended, and for other purposes.

By Mr. McINTIRE

MAY 17, 1961

Referred to the Committee on Agriculture

87TH CONGRESS
1ST SESSION

S. 1927

IN THE SENATE OF THE UNITED STATES

MAY 22, 1961

Mr. ELLENDER (by request) introduced the following bill; which was read twice and referred to the Committee on Agriculture and Forestry

A BILL

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) section 12 of the Federal Farm Loan Act, as
4 amended (12 U.S.C. 771), is amended—

5 (1) by substituting “a fixed number of one or more
6 installments each year” for “a fixed number of annual
7 or semiannual installments” in paragraph “Second”
8 thereof; and

9 (2) by substituting in the fourth sentence of para-
10 graph “Sixth” thereof the following for all that comes
11 after “but no such loan shall be made to a corporation”:

1 “unless the principal part of its income is derived from
 2 farming operations and unless owners of stock in the
 3 corporation assume personal liability for the loan to the
 4 extent required under rules and regulations prescribed
 5 by the Farm Credit Administration.”.

6 (b) Section 202 (c) of the Federal Farm Loan Act,
 7 as amended (12 U.S.C., supp. II, sec. 1033), is amended
 8 by changing the word “five” to the word “seven”.

9 SEC. 2. The Farm Credit Act of 1933, as amended, is
 10 amended—

11 (1) by adding the following subsection to section 5
 12 thereof (12 U.S.C. 1131i) :

13 “(f) The revolving funds created by subsections (a)
 14 and (e) of this section are hereby combined into a single
 15 revolving fund which shall be available for all purposes
 16 for which both such funds were heretofore available, and
 17 reference in any provision of law to the revolving fund
 18 created by said subsection (a) or said subsection (e) shall
 19 be deemed a reference to the single revolving fund created
 20 by this subsection.”;

21 (2) by changing section 22 (a) thereof (12 U.S.C.
 22 1131f(a)) to read:

23 “(a) Each production credit association shall, at the end
 24 of each fiscal year, apply the amount of its earnings for such
 25 year in excess of operating expenses (including provision

1 for valuation reserves against loan assets in an amount equal
2 to one-half of 1 per centum of loans outstanding at the end of
3 the fiscal year, to the extent that earnings for the year in
4 excess of other operating expenses permit, but no additions
5 thereto shall be made which would increase such reserves
6 above 5 per centum of loans outstanding at the end of the
7 fiscal year), first, to the restoration of the impairment, if
8 any, of capital; and, second, to the establishment and main-
9 tenance of a surplus account, the minimum amount of which
10 shall be prescribed by the Federal intermediate credit bank.”;

11 (3) by inserting in the first paragraph of section
12 41 thereof (12 U.S.C. 1134c) immediately before the
13 semicolon at the end of clause “(a)” the following:
14 “, but no loan shall be made to any such cooperative
15 association unless at least 75 per centum, or such higher
16 per centum as the board of directors of a bank for
17 cooperatives determines, of the voting rights are held
18 by agricultural producers or other cooperative asso-
19 ciations eligible to borrow from such bank” and by sub-
20 stituting in the second paragraph of said section 41 for
21 the words “as defined in the Agricultural Marketing
22 Act, as amended,” the words “eligible for loans under
23 the foregoing provisions of this section”;

24 (4) by inserting in the first paragraph of section 34
25 thereof (12 U.S.C. 1134j) immediately before the

1 semicolon at the end of clause “(a)” the following:
2 “, but no loan shall be made to any such cooperative
3 association unless at least 75 per centum, or such higher
4 per centum as the board of directors of the central
5 bank determines, of the voting rights are held by agri-
6 cultural producers or other cooperative associations
7 eligible to borrow from such bank” and by substituting
8 in the last paragraph of said section 34 for the words
9 “as defined in the Agricultural Marketing Act, as
10 amended,” the words “eligible for loans under the fore-
11 going provisions of this section”; and

12 (5) by adding the following subsection to section
13 36 thereof (12 U.S.C. 11341) :

14 “(d) Notwithstanding any other provision of this Act,
15 in the case of liquidation or dissolution of any present or
16 former borrower from a bank for cooperatives, the bank,
17 may, in accordance with rules and regulations prescribed by
18 the Farm Credit Administration, retire and cancel any capi-
19 tal stock or allocated surplus and contingency reserves or
20 other equity interest, in the bank owned by such borrower
21 at the fair book value thereof, not exceeding par, and, to
22 the extent required, corresponding shares and allocations
23 or other equity interests held by the regional bank in the
24 central bank shall be retired.”.

A BILL

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

By Mr. ELLENDER

MAY 22, 1961

Read twice and referred to the Committee on
Agriculture and Forestry

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF
BUDGET AND FINANCE
(For information
only, should not
be quoted or cited)

CONTENTS

Issued August 14, 1961
For actions of August 11, 1961
87th-1st, No. 138

Adjournment.....	14		
Appropriations.....	20		
Assistant Secretary.....	23		
Bulk commodities.....	15		
Cargo preference.....	15		
Conservation.....	16		
Corn.....	7		
Development loans.....	1,15		
Education.....	4		
Electrification.....	13		
FAO.....	15		
Farm credit.....	5	Fresh fruits.....	15
Farm labor.....	6	Housing.....	3
Farm program.....	2	Imports.....	10
Feed grains.....	2	Lands.....	15,19,22
Fish flour.....	9	Manpower.....	8
Foreign aid.....	1,15	Parkway.....	22
Foreign currencies.....	15	Property.....	18
Forestry.....	17,20,22	Public Law 480.....	15
		Research.....	17
		Small farms.....	15
		Surplus commodities.....	15
		Surplus food.....	12
		Tariff.....	21
		Transportation.....	11
		Water resources.....	15
		Youth corps.....	16

HIGHLIGHTS. Senate debated foreign aid authorization bill. Sens. Aiken and Keating criticized feed grains program. Senate committee voted to report bill to establish Department of Urban Affairs and Housing. Sen. Stennis introduced and discussed bill to authorize USDA cooperation with States in forest research.

SENATE

1. FOREIGN AID. Continued debate on S. 1933, the foreign aid authorization bill (pp. 14440-1, 14475, 14477-555, 14559, 14566-71). By a vote of 39 to 56, rejected an amendment by Sen. Byrd, Va., which would have provided for financing development loans by appropriations authorized annually by Congress rather than by long-term borrowing authority as provided in the bill (pp. 14477-555). Pending at adjournment was an amendment by Sen. Saltonstall, for himself and Sens. Keating, Bush, Dodd, and Morton, to provide for congressional approval of development loans in excess of \$10,000,000 (p. 14555).
2. FARM PROGRAM. Sen. Keating criticized the feed grains program, stated that the latest USDA report on the estimate for the 1961 corn crop "cast a shadow... over the long-boasted success of the administration's emergency feed grain program for 1961," and urged the establishment of a joint congressional Study Commission on Agriculture. Sen. Aiken stated that Sen. Keating's remarks

illustrated why "there was such a rush to enact legislation restricting corn production before these estimates came out" and suggested that "You have not seen anything yet. Wait until you get the October and November estimates. Then you will realize how futile this program is." p. 14465

3. HOUSING. The Government Operations Committee voted to report (but did not actually report) with amendments S. 1633, to provide for the creation of a Department of Urban Affairs and Housing. p. D695

4. EDUCATION. The Labor and Public Welfare Committee voted to report (but did not actually report) without amendment S. 2393, to extend for 1 year authority for Federal assistance for schools in federally impacted areas. p. D696

Sens. Engle, Javits and Morse urged enactment of legislation for this purpose. pp. 14475, 14562-5

5. FARM CREDIT. The Subcommittee on Agricultural Credit and Rural Electrification voted to report to the full Agriculture Committee with amendments S. 1927, to clarify and simplify the lending operations of institutions regulated by the Farm Credit Administration. p. D695

6. FARM LABOR. Sen. Williams, N. J., commended the "constructive thinking and planning of a New Jersey voluntary health agency in ways to improve health services for and health conditions of migratory farm families," and urged enactment of legislation to provide Federal assistance for health services for migratory farm families. p. 14474

7. CORN. Sen. Mundt stated that drought conditions were not as severe in S. Dak. as had been pictured recently and inserted an article on the scenic attractions of the State, "South Dakota's Corn Palace Recalls Flamboyant Times." pp. 14561-2

8. MANPOWER RESOURCES. Sen. Javits submitted an amendment intended to be proposed to S. 1991, the proposed Manpower Development and Training Act of 1961, to authorize the National Advisory Committee which would be established under the bill to encourage and assist in the organization on a plant, community, regional or industry basis of labor-management-public committees. Sen. Javits stated that "Such local committees would provide the local initiative which is essential for the success of the manpower development and training program and also for achieving an increase in the rate of productivity growth in the United States." pp. 14572

9. FISH FLOUR. Sen. Saltonstall discussed the use of a new product, fish flour, saying, "All of our studies indicate that this powder is the cheapest source of animal protein in the world"; and inserting the "Summary and Conclusions" of a scientific survey of its use. p. 14447

10. IMPORTS. Sen. Bennett suggested that the U. S. "invoke the Trading With the Enemy Act, and break off all trade with Cuba," and inserted an article, "President Pleads for Prudence--Impatient Nation Taking on Belligerent Mood." pp. 14447-8

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OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

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CONTENTS

Issued August 17, 1961
For actions of August 16, 1961
87th-1st, No. 141

ASC committees.....	12
Bids.....	13
Cotton imports.....	20
Development loans.....	3,9
Disaster relief.....	4
Education.....	7,10,19
Farm credit.....	1
Farm labor.....	6,17
Foreign aid.....	3,9,15
Foreign trade.....	8,22
Hog cholera.....	1
Income tax.....	23
Information.....	13
Peace Corps.....	16
Peanuts.....	1

Perishable commodities...	1
Personnel.....	12,18,21,23
Retirement.....	12,21
Tobacco.....	2
Training.....	12
USDA employment.....	18
Watersheds.....	5,14
Water compacts.....	11

HIGHLIGHTS: Senate committee reported bill to establish national hog cholera eradication program. Senate committee voted to report bill for lease and transfer of tobacco acreage allotments. Senate debated foreign aid authorization bill. House debated foreign aid authorization bill.

SENATE

1. THE AGRICULTURE AND FORESTRY COMMITTEE reported the following bills: p. 14871
~~S. 1908, without amendment, directing the Secretary of Agriculture to initiate a national hog cholera eradication program in cooperation with the States (S. Rept. 748).~~
~~S. 1037, with amendment, to amend the Perishable Agricultural Commodities Act regarding fees, oral hearings, and relicensing of persons under the Act (S. Rept 750).~~
~~H. R. 1021, without amendment, to extend for 2 years the definition of peanuts which is now in effect under the Agricultural Adjustment Act of 1938 so as to exclude from acreage allotments and marketing quotas any peanuts produced and marketed for consumption as boiled peanuts (S. Rept. 749).~~
S. 1927, with amendment, to clarify and simplify the lending operations of institutions regulated by the Farm Credit Administration (S. Rept. 747).
2. TOBACCO. The Agriculture and Forestry Committee voted to report (but did not actually report) with amendment H. R. 1022, to provide for the lease and transfer of tobacco acreage allotments. p. D716

3. FOREIGN AID. Continued debate on S. 1983, the foreign aid authorization bill (pp. 14895-935, 14937-40). By a vote of 51 to 43, agreed to an amendment by Sen. Ellender to reduce from \$1,900 million to \$1,700 million the authorization for development loans for each of the fiscal years 1963 through 1966 (pp. 14914-7). Agreed to a unanimous consent agreement providing that beginning Thurs., Aug. 17, further debate will be limited to 1 hour on any amendment and to 6 hours on final passage of the bill (p. 14934).

Sen. Humphrey submitted an amendment intended to be proposed to the bill to provide that in the administration of technical assistance, the Administrator shall "utilize to the fullest extent practicable, the facilities and resources of the Federal agency or agencies with primary responsibilities for domestic programs in such field." p. 14872

4. DISASTER RELIEF. The Public Works Committee reported without amendment S. 1742, to authorize Federal assistance to Guam, American Samoa, and the Trust Territory of the Pacific Islands in major disasters (S. Rept. 758). p. 14943
5. WATERSHEDS. The Agriculture and Forestry Committee approved the following watershed projects: Big Creek, Ark., Ulati Creek, Calif., South Branch, Park River, Conn., Frog Creek, Kans., Humphrey-Clanton Creek, Ky., South Branch Cass River, Mich., Plum Creek, Nebr., Upper Red Rock Creek, Okla., and Houser Creek, Tenn. p. D716
6. FARM LABOR. Sen. Morse inserted resolutions adopted by the American Baptist Convention, including a resolution favoring Federal aid to improve conditions for migratory farm workers. pp. 14868-71
7. EDUCATION. Sen. McNamara submitted an amendment he intends to propose to provide for a 2-year extension of Federal assistance for schools in federally impacted areas. p. 14872
8. FOREIGN TRADE. Sen. Proxmire expressed concern over the "Soviet economic offensive," stated that the "Soviet trade challenge looms as a significant factor in the shaping of our foreign policy toward many sensitive areas of the world," and inserted several items relating to U. S. and Soviet trade with other nations. pp. 14880-92

HOUSE

9. FOREIGN AID. Continued debate on H. R. 8400, the foreign aid authorization bill (pp. 14945-15005). By a vote of 197 to 185, agreed to an amendment by Rep. Morgan, as modified by a substitute amendment by Rep. Saund, to strike out the provision authorizing development loans over a 5-year period to be financed by Treasury borrowings, and to authorize instead appropriations of \$1,200,000,000 for the fiscal year 1962 for development loans, to be available until expended (pp. 14991-15005).
10. EDUCATIONAL EXCHANGES. Rep. Hays discussed his bill H. R. 8666, to provide for educational and cultural exchanges, saying, "The proposals contained in this bill are a necessary first step toward improvement in a vital area of our international affairs." pp. 15005-6
11. WATER COMPACTS. The Interior and Insular Affairs Committee reported without amendment S. 2245, to extend the time for negotiation of certain compacts by the States of Nebraska, Wyoming, and South Dakota (H. Rept. 952). p. 15015

AMENDMENTS TO FARM CREDIT LAWS

AUGUST 16, 1961.—Ordered to be printed

Mr. HOLLAND, from the Committee on Agriculture and Forestry,
submitted the following

R E P O R T

[To accompany S. 1927]

The Committee on Agriculture and Forestry, to whom was referred the bill (S. 1927) to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes, having considered the same, report thereon with a recommendation that it do pass with amendments.

HEARINGS

Hearings were conducted on June 6, 9, and 14 by the Subcommittee on Agricultural Credit and Rural Electrification.

SHORT EXPLANATION OF BILL

S. 1927 makes several technical changes in the laws relating to the cooperative credit system regulated by the Farm Credit Administration. With the committee amendments, the bill would—

(1) Permit installment payments on Federal land bank loans to be scheduled more frequently than semiannually;

(2) Permit Federal land bank loans to be made to a farming corporation if owners of its stock assume personal liability to the extent prescribed by the Farm Credit Administration (instead of the present requirements that owners of 75 percent of the stock are farming the farm and owners of a like amount assume personal liability);

(3) Increase the maximum maturity for loans or discounts by the Federal intermediate credit banks to 7 years (from 5);

(4) Combine the revolving funds available for subscription to stock of production credit associations and Federal intermediate credit banks;

(5) Require each production credit association to set aside each year earnings equal to $\frac{1}{2}$ percent of its outstanding loans for a bad debt reserve until such reserve equals $3\frac{1}{2}$ percent of outstanding loans, after which increases in the reserve are permitted but not required;

(6) Permit retirement of interests in any bank for cooperatives held by a cooperative which is liquidated or dissolved.

COMMITTEE AMENDMENTS

First, in lieu of requiring a bad debt reserve to be accumulated by each production credit association until it reaches 5 percent of outstanding loans, and limiting it to that amount; the committee recommends that the bad debt reserve be required to be accumulated until it reaches $3\frac{1}{2}$ percent of outstanding loans, and thereafter be permitted to be accumulated as may appear necessary. It is intended that the bad debt reserve of $3\frac{1}{2}$ percent required by the bill will be deemed reasonable for the purpose of deductions under section 166(c) of the Internal Revenue Code of 1954, and that the reasonableness of any additions above $3\frac{1}{2}$ percent would be determined administratively in each case by the Internal Revenue Service. Since 1945, the first year for which any production credit association was required to file an income tax return, the Internal Revenue Service has questioned the reasonableness of the reserves of production credit associations, disallowing deductions, and requiring the associations to pay taxes under protest and sue to recover the overpayment. Twenty-three such suits have been filed. In 17 the associations' claims was allowed in full. In three cases a substantial part of their claims were allowed, and in three cases the claims were not allowed. It is quite apparent that no association can at present set up a reasonable reserve, except at its peril; and this question should be set to rest, at least insofar as reserves not exceeding $3\frac{1}{2}$ percent are concerned. The courts have approved reserves as high as 4.76, 4.65, 4.49, 4.33, 4.15, 4.09, 3.88, and 3.76 percent, so that $3\frac{1}{2}$ percent is manifestly reasonable. With respect to reserves above $3\frac{1}{2}$ percent, the question of reasonableness would be left to determination on an individual case basis.

Second, the committee recommends striking sections 2(3) and 2(4) of the bill, which would permit the banks for cooperatives to make loans to a cooperative if 75 percent of its voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such bank. At present the law is construed to require 90 percent of the cooperatives' voting rights to be held by producers or other eligible cooperatives before the cooperatives can be eligible for a loan. The committee felt that the banks for cooperatives were established to care for the borrowing needs of farmer cooperatives as described in the Agricultural Marketing Act, as that act has been long understood; and that it would not be wise to extend their authority in this manner, but might result in greater friction with commercial lending institutions.

GENERAL STATEMENT

As reported by the committee, the bill consists of six amendments to the Federal Farm Loan Act and the Farm Credit Act of 1933 to improve the lending service and other operations of the cooperative system of associations and banks which are regulated by the Farm Credit Administration. There are two amendments which concern the Federal land banks, three which concern the Federal intermediate credit banks and production credit associations, and one which concerns the banks for cooperatives. Before explaining the provisions of the bill in detail, background information as to the banks and associations concerned and as to the Farm Credit Administration, which has their supervision, will be given.

BACKGROUND—COOPERATIVE FARM CREDIT SYSTEM

The United States is divided into 12 farm credit districts consisting of from one to eight States. There are in each district a Federal land bank, from 35 to 110 Federal land bank associations, a Federal intermediate credit bank, from 26 to 80 production credit associations, and a bank for cooperatives. In each district, the Federal land bank makes long-term land mortgage loans to farmers through the land bank associations; the production credit associations make short- and intermediate-term loans to farmers and ranchers with funds obtained by rediscounting the loans with the Federal intermediate credit bank which also discounts agricultural loans made by other financing institutions; and the bank for cooperatives makes loans to cooperative associations which are engaged in marketing, purchasing farm supplies, or rendering farm business services.

Each district has a farm credit board which also serves as the board of directors of each of the three banks. Each district board consists of seven members, two elected by the Federal land bank associations, two elected by the production credit associations, one elected by the stockholders of the bank for cooperatives, and two appointed by the Governor of the Farm Credit Administration with the concurrence of the Federal Farm Credit Board. (The Government capital in the bank for cooperatives in six of the districts has been retired to a point which entitles the stockholders of the bank to elect a second member of the district board, leaving only one to be appointed by the Governor in those six districts, effective with 1962.) Each land bank association and production credit association has its own board of directors which is elected by the members who obtained loans through or from the association. There is a Central Bank for Cooperatives located in the District of Columbia, which has a separate board of directors.

The activities of these 37 banks and about 1,280 local associations are subject to supervision, examination, and coordination by the Farm Credit Administration which is an independent agency in the executive branch of the U.S. Government. The agency consists of the Federal Farm Credit Board, the Governor, and other officers and employees.

The Federal Farm Credit Board is a part-time, policymaking Board which consists of 13 members, 12 of whom are appointed by the President with the advice and consent of the Senate. In making

the appointments, one from each of the farm credit districts, the President is required to receive and consider nominations by the three user groups in each district (i.e., the Federal land bank associations, the production credit associations, and the stockholders of the bank for cooperatives). The 13th member of the Board is designated by the Secretary of Agriculture as his representative on the Board.

Under the general supervision and direction of the Federal Farm Credit Board, the Governor is responsible for the execution of the laws creating the powers, functions, and duties of the Farm Credit Administration. Expenses of the Farm Credit Administration are not paid from Treasury funds but are paid through assessments against the banks and associations of the system.

BACKGROUND—FEDERAL LAND BANKS

Established in 1917 to make long-term land mortgage loans to farmers, the Federal land banks were originally capitalized by the U.S. Government, which also provided additional capital during the 1930's, but the last of such Government capital was retired in 1947. Each borrower from a Federal land bank is required to become a member of the Federal land bank association through which his loan is made. The borrower buys capital stock of the association in an amount equal to 5 percent of the face amount of the loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. By this means all the capital stock of the 791 Federal land bank associations is owned by their farmer-members and the associations in turn have owned all of the stock of the Federal land banks since 1947. On December 31, 1960, the combined net worth of all Federal land banks and Federal land bank associations were approximately \$520 million. The loan funds of the Federal land banks are obtained primarily through the sale of consolidated bonds to the investing public.

A Federal land bank loan must be secured by a first mortgage on the farm or ranch of the borrower. The amount loaned in any case may not exceed 65 percent of the appraised normal value of the farm or ranch offered as security, plus the amount of the stock required to be purchased (5 percent of the face amount of the loan). Since the banks obtain their loan funds chiefly through the sale of consolidated bonds to the investing public, interest on loans made to farmers varies with the cost of money and differences in administrative cost. At the present time, two of the banks are making loans at 6 percent, one at $5\frac{3}{4}$ percent, and nine charge an interest rate of $5\frac{1}{2}$ percent. A land bank loan may not be made for more than 40 years but most of them have maturities of 20 to 35 years. Presently there are some 380,000 land bank loans outstanding in the approximate amount of \$2.7 billion.

BACKGROUND—FEDERAL INTERMEDIATE CREDIT BANKS AND PRODUCTION CREDIT ASSOCIATIONS

The Federal intermediate credit banks were established in 1923 but it was not until 1933 that the production credit associations were

authorized by Congress. The associations make short- and intermediate-term loans to farmers and ranches. To obtain funds with which to do so, the associations rediscount their loans with, or borrow from, the Federal intermediate credit bank of the district. The Federal intermediate credit banks also lend to and discount agricultural loans for other financing institutions, principally State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, but over 90 percent of the business of the credit banks is with the production credit associations.

The Federal intermediate credit banks were originally capitalized by the U.S. Government but, pursuant to changes made by the Farm Credit Act of 1956, the credit banks are now being converted from Government to private ownership and eventually their capital stock will be owned entirely by the production credit associations. As required under the 1956 act, the production credit associations purchased stock in the banks equal to 15 percent of the stock of the banks owned by the Government as of January 1, 1957, and the proceeds (\$13,112,015) were used to retire a corresponding amount of Government stock. Some Government stock (\$453,865) also has been retired out of earnings of the banks. As a result of these two types of retirements, the sum of \$13,565,880 was paid into the Treasury as miscellaneous receipts. However, an even greater amount of stock in the banks has had to be purchased by the Government out of the revolving fund available for that purpose in order to enable the banks to meet the credit needs of farmers and stockmen in their districts. Further retirements of Government stock are to be made out of earnings as the capital needs of the banks permit and the associations will acquire further stock in the banks as patronage refunds.

As of December 31, 1960, the capital stock of the Federal intermediate credit banks owned by the Government totaled \$93.2 million; the capital stock of the banks owned by the production credit associations totaled \$23.6 million; participation certificates owned by other financing institutions amounted to \$841,000; and such amounts, together with accumulated earnings of \$74.6 million, gave the intermediate credit banks a combined net worth of \$192.2 million. The loan funds of the intermediate credit banks are obtained chiefly through the sale of consolidated debentures to the investing public so that the interest and discount rates which the banks charge depend upon the rates of interest which the banks have to pay on their debentures.

Initially the production credit associations, of which there now are 488, were almost entirely capitalized by the Government. This capital was gradually retired as farmers purchased substantial amounts of stock in the associations. Each borrower from a production credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. Two years after the holder ceases to be a borrower, class B stock is converted into class A stock and many farmers have also voluntarily invested in class A stock of the associations. As of December 31, 1960, the Government held capital stock in only 20 of the production credit associations, for a total of \$900,000; the member-owned stock of all of the associations amounted to \$175.1 million;

and such amounts, together with accumulated earnings of \$126 million, made the combined net worth of all the production credit associations \$302 million.

Loans by the production credit associations are usually on a budget basis for periods up to 1 year. Some loans for capital purposes are made for intermediate terms up to 5 years. The loans are usually secured by chattel mortgages on crops, livestock, and machinery, but unsecured loans are made in appropriate cases. Since the associations obtain their loan funds by rediscounting farmers' notes with the Federal intermediate credit banks, interest rates are determined largely by the cost of money to those banks. At the present time the interest rates charged by the associations vary but the most prevalent rate is 6 percent.

BACKGROUND—BANKS FOR COOPERATIVES

The banks for cooperatives were organized under the Farm Credit Act of 1933. They make loans to farmers' marketing, purchasing, and service cooperatives. Three distinct types of loans are made: commodity, operating capital, and facility loans. Since the loan funds of the banks for cooperatives, other than those available from their capital and surplus, are obtained from the sale of consolidated debentures to the investing public, interest rates charged by the banks for cooperatives depend, to a large extent, upon the rates they have to pay on their debentures. Interest rates vary with the type and term of loan and between banks. At the present time, interest rates charged by the banks for cooperative range from a low of 4 percent to a high of 5½ percent.

The banks for cooperatives were capitalized by the United States out of the revolving fund from which the Federal Farm Board previously made loans to cooperatives under the Agricultural Marketing Act of 1929. Since the Farm Credit Act of 1955, the Government capital in the banks for cooperatives is being systematically retired by the creation of permanent capital contributed by the users of the banks.

Effective since January 1, 1956, borrowers from the banks for cooperatives are required to purchase class C (voting) stock in the banks in an amount related to the quarterly interest payments on their loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). Also, the net earnings of the banks, after reserves, franchise taxes, and certain dividends are provided for, are required to be distributed in class C stock to the borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in an amount equal to the amount of class C stock issued for that year. Thus, funds from regular investments in class C stock by the borrowers and from net earnings of the banks are being used to retire Government capital. In this manner, some \$32 million of Government capital has been retired since 1955.

As of December 31, 1960, the capital stock of the banks for cooperatives owned by the Government totaled \$118 million; the capital stock of the banks owned by borrowers and others totaled \$48 million; and such amounts, together with accumulated earnings of \$104 million, gave the banks for cooperatives a combined net worth of \$270 million.

EXPLANATION OF BILL (WITH COMMITTEE AMENDMENT)

AMENDMENTS TO FEDERAL FARM LOAN ACT

Section 1(a)(1): *To permit amortization plan for Federal land bank loans to provide for installments more frequently than semiannually.* The long-term farm mortgage loans made by the Federal land banks are usually repayable by means of annual or semiannual installments which include not only interest but also such amounts to be applied on principal as will extinguish the debt within the agreed term of the loan which usually is 20 to 35 years and may not exceed 40 years. Under existing law (12 U.S.C., Supp. II, 771 Second), the amortization plan may not require such repayments more frequently than semiannually. The purpose of section 1(a)(1) of the bill is to permit the amortization plan for Federal land bank loans to provide for installments more frequently than semiannually. This would be accomplished by substituting "a fixed number of one or more installments each year" for "a fixed number of annual or semiannual installments" in section 12 Second of the Federal Farm Loan Act, as amended (12 U.S.C., Supp. II, 771 Second). While it is expected that most land bank loans would continue to be made on an annual or a semiannual installment plan, it is deemed desirable to permit repayments more frequently than semiannually where there is more in line with the borrower's income pattern.

Section 1 (a) (2): *To amend eligibility requirements for Federal land bank loans to farming corporations.* The basic eligibility requirement for a Federal land bank loan is found in section 12 Sixth of the Federal Farm Loan Act, as amended (12 U.S.C. 771 Sixth):

No such loan shall be made to any person who is not at the time, or shortly to become, engaged in farming operations or to any other person unless the principal part of his income is derived from farming operations.

As so used, the term "person" is defined in the law to include "a corporation engaged in farming operations." However, in the case of a corporation, the existing law further specifies, in effect, that no loan shall be made (a) unless at least 75 percent in value and number of shares of the stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan, and (b) unless the owners of a like amount of stock assume personal liability for the loan.

That the present requirements are overly restrictive appears to be demonstrated by the fact that in 1960 only 117 out of a total of 43,404 land bank loans were made to corporations. For requirements (a) and (b) noted above, the bill would substitute that, in order for a corporation to be eligible for a loan, the principal part of its income must be derived from farming operations and owners of stock in the corporation must assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration. This would afford more flexibility and permit loans to corporations with fewer stockholders assuming personal liability than is now required; but it is expected that full personal liability will always be required of at least one or more of the responsible stockholders.

The corporate method of organization is increasingly being used by families as a means of facilitating the transfer of the farm, and allocating interest among family members, and as a means of avoiding the necessity of liquidating the farm at the time of death of the parents. Where only one of several family members holding equal amounts of stock remains on the farm, the Federal land bank cannot now make a loan to the corporation. The purpose of this section is to provide for situations of the type just described and not to provide for loans to corporations formed by unrelated investors, none of whom participate in the farming operations.

Section 1 (b): *To increase from 5 to 7 years the maximum maturity permitted for loans, advances, or discounts by a Federal intermediate credit bank.* The Federal intermediate credit banks make loans to, and discount agricultural paper for, the production credit associations and other financing institutions which make loans to farmers and ranchers. Under section 202(c) of the Federal Farm Loan Act, as amended (12 U.S.C. 1033), the loans made or discounted by a Federal intermediate credit bank may not have a maturity of more than 5 years from the date made or discounted by the bank. To be eligible for discount at a Federal intermediate credit bank, therefore, the loans made to farmers and ranchers by the production credit associations and other financing institutions may not have a maturity of more than 5 years at the time of such discount. Section 1(b) would increase the permissible maturity from 5 to 7 years. It is to be expected that most intermediate-term loans discounted by the credit banks will continue to fall within the 2- to 5-year range. In individual cases, though, a 6- or 7-year maturity may be needed to liquidate obligations incurred for capital purposes.

AMENDMENTS TO FARM CREDIT ACT OF 1933

Section 2(1): *To combine the Federal intermediate credit bank and production credit association revolving funds into a single fund available for the same purposes.* There now are two revolving funds which were established as provided for in section 5 of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131i). Under subsection (a) thereof, there is a revolving fund of \$60 million which is available for subscriptions to the capital stock of production credit associations (12 U.S.C. 1131c, 1131e-1(a)). Under subsection (e) thereof, there is authorized a revolving fund of \$70 million of which \$40 million is now available for subscriptions to the capital stock of the Federal intermediate credit banks (12 U.S.C. 1061(a)(1)).

The Government now holds capital stock in only 20 of the 488 production credit associations and it is apparent that not all of the fund available for capitalizing production credit associations will be needed by such associations. On the other hand, the Federal intermediate credit banks are expected to require larger capital stock subscriptions than could be made from the separate fund now available to them. Under the law, the debentures and similar obligations issued for a Federal intermediate credit bank and other borrowings may not exceed 10 times the surplus and paid-in capital of the bank (12 U.S.C. 1041). Since the funds with which a credit bank makes loans and discounts are obtained through the sale of debentures and

other borrowings, it follows that as its business increases and more debentures are issued, the paid-in capital of the bank must be increased in order to stay within the statutory maximum ratio of 10 to 1.

At the time of the enactment of the Farm Credit Act of 1956, it was recognized that it might become advisable to make some of the production credit association revolving fund available for the purposes of the Federal intermediate credit bank revolving fund. Section 2(1) of the bill would do this by combining the two funds into a single revolving fund, all of which then would be available for investment in capital stock of production credit associations and Federal intermediate credit banks on the same terms as now.

Section 2(2): *To prescribe amount of reserves for bad debts to be established by production credit associations.* The production credit associations are organized and operate under the terms of the Farm Credit Act of 1933, as amended, to make loans to farmers and ranchers. They are chartered and regulated by the Farm Credit Administration and also are under the more local supervision of the Federal intermediate credit bank in each district. Section 22(a) of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131f(a)), now directs how a production credit association shall apply its earnings in excess of operating expenses at the end of each fiscal year, but it makes no more specific provision for a reserve for bad debts than that "provision for reasonable valuation reserves" shall be included as an operating expense.

Section 2(2) of the bill would amend the existing law so that each production credit association would be required, in applying its earnings at the end of each fiscal year, to include as an operating expense provision for valuation reserves against loan assets in an amount equal to one-half of 1 percent of loans outstanding at the end of the fiscal year. This would be required to the extent that earnings for the year in excess of other operating expenses permit. As introduced, the bill would have provided that no additions are to be made to the valuation reserves which would increase such reserves above 5 percent of loans outstanding at the end of the fiscal year. As amended by the committee, annual additions are required to be made to such bad debt reserves until they equal or exceed $3\frac{1}{2}$ percent of loans outstanding at the end of the fiscal year. Beyond such $3\frac{1}{2}$ percent further additions to such reserves are not required but may be made. This is designed to provide for bad debt reserves in an amount which will be adequate for the sound operation of an association. It also is intended and assumed that the additions to bad debt reserves which a production credit association is required to make under the Farm Credit Act of 1933, as so amended, i.e., up to $3\frac{1}{2}$ percent of outstanding loans, would be accepted as reasonable for Federal income tax purposes. Any voluntary additions beyond such $3\frac{1}{2}$ percent, though, would continue to be subject to determination by the Internal Revenue Service as to whether they are reasonable for tax purposes.

As provided by Congress (12 U.S.C. 1138c), the production credit associations are instrumentalities of the United States and, while the United States holds any class A stock in such an association, it is exempt from taxation—Federal and State—except that any real property and any tangible personal property is subject to taxation to the

same extent as other similar property is taxed. When a production credit association retires all of its class A stock held by the Government, the association becomes subject to Federal income tax. Since the Government holds class A stock in only 13 of the associations, this means that the other 475 associations out of a total of 488 are now subject to Federal income tax.

The first of the production credit associations to file Federal income tax returns began doing so for 1945. Since then, a question frequently raised by the Internal Revenue Service is whether the amount added by an association to its bad debt reserves is reasonable and should be allowed as a deduction under section 166(c) of the Internal Revenue Code of 1954 in determining the taxable income of the association. In lieu of taking a deduction for debts which actually become worthless within the taxable year, section 166(c) of the Revenue Code provides that "there shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts." If the Internal Revenue Service does not allow deductions for the amounts added to the bad debt reserves, the production credit association may pay the taxes involved under protest and then sue to recover them in a U.S. district court.

In such actions brought by 23 of the associations, the courts allowed the claims of 17 associations in full; in three cases a substantial part of their claims were allowed; and only in three cases were the additions claimed disallowed in total. These decided cases are summarized at pages 77-79 of the hearings on S. 1927 under the heading "Percentages of Outstanding Loans Accepted by Courts as Appropriate for Bad Debt Reserves of Production Credit Associations in Passing on Additions Thereto To Be Allowed as Deductions for Federal Income Tax Purposes." In one case, the court allowed the association accumulated bad debt reserves of only 3 percent of outstanding loans even though more was claimed. For other associations, accumulations as high as 4.09, 3.76, 4.15, 3.88, 4.33, 4.65, 4.76, and 4.49 percent of outstanding loans were allowed by the courts as bad debt reserves. Smaller accumulations were involved for most of the associations because they had not yet built up their reserves any further for the years in dispute. Inasmuch as such court decisions now have delineated what are deemed reasonable bad debt reserves for the production credit associations, it is considered that the associations should not have to continue to resort to court actions to sustain deductions made for bad debt reserves. Such a procedure is costly and time consuming not only to the associations but also to the United States which is represented by the Department of Justice in such actions. The reasons for specifying in the law the amounts which the production credit associations are to add to their bad debt reserves each year were gone into at length in the hearings on S. 1927 (pp. 4, 22, 52-53, 69-82).

A report filed by the Treasury Department opposes enactment of section 2(2) of S. 1927 as originally introduced, to the extent that it is intended to affect the amount of allowable additions to reserves under section 166(c) of the Internal Revenue Code. The Treasury Department report includes the following:

In summary, it appears that appropriate bad debt reserves for production credit associations can best be resolved on an administrative basis; that the proposed statutory 5 percent

reserve ceiling cannot be justified from the viewpoint of a logical and equitable application of the income tax law even when taking into account the large loss experience of lending institutions during the economic collapse of the 1930's; and that enactment of a 5 percent reserve ceiling for production credit associations, if used as a precedent for comparable lending institutions, would entail revenue losses substantially in excess of \$1 billion.

In the opinion of the committee, the amount of bad debt reserves for production credit associations should not be left entirely for administrative determination. Instead of the statutory 5 percent reserve ceiling originally proposed, though, the committee would amend the Farm Credit Act of 1933 to specify that the production credit associations are required to build up their bad debt reserves to $3\frac{1}{2}$ percent of outstanding loans and may, but are not required to, make additions beyond such $3\frac{1}{2}$ percent. The intention is that the required reserves up to $3\frac{1}{2}$ percent of outstanding loans would be allowed as reasonable for Federal income tax purposes and that the Internal Revenue Service would continue to decide whether any voluntary additions beyond such $3\frac{1}{2}$ percent shall be so allowed. The required reserves of $3\frac{1}{2}$ percent of outstanding loans are well within the accumulations allowed by the courts for the production credit associations. Such is the purpose of section 2(2) as amended by the committee. It of course need not be viewed as a precedent for other institutions which are not comparable either in their lending or their court experience as to what are reasonable bad debt reserves. In any event, however the tax loss is estimated if the statutory formula proposed for the production credit associations were applied to other institutions, there is in principle no ground for any claim that it will result in any appreciable tax loss as respects the production credit associations. This is because the statutory formula being proposed is considered to allow the production credit associations no greater tax-free bad debt reserves than was delineated as reasonable in the court decisions and anything above $3\frac{1}{2}$ percent of outstanding loans would continue to be subject to allowance by the Internal Revenue Service. Also to be kept in mind is that obtaining the same formula by litigation rather than by legislation would involve the expenses of the association in the litigation which would be deductible as an operating expense, not to mention the expense to the Government on the other side of the litigation. The amendment proposed by section 2 (2) will resolve an issue which is better eliminated so that the associations may concentrate on their purpose of making loans to farmers and ranchers.

Section 2(3) : *To permit retirement of interests in a bank for cooperatives held by present or former borrower which is being liquidated or dissolved.* Cooperative associations borrowing from a bank for cooperatives acquire certain interests in the bank while they are such borrowers. Such interests include class C stock in the bank which a borrower is required to purchase (12 U.S.C. 1134d(a)(3)) for which is issued to a borrower as a patronage refund (12 U.S.C. 1134l(b)). A borrower is also allocated an interest in the surplus and contingency reserves of the bank on the basis of its patronage (12 U.S.C. 1134l(a)), which interest eventually is payable to the borrower in class C stock of

the bank (12 U.S.C. 1134l (a), (b)). The class C stock of the bank may not be retired until after all class A (Government) stock is retired, and all class B (investment) stock of the same and earlier fiscal years is retired (12 U.S.C. 1134d(a)(3)). Except in a case where a borrower holding such interests defaults (12 U.S.C. 1134d(c)), it will be some years before such interests are retired and the proceeds can be paid to the holders.

If a cooperative association which was a borrower from a bank for cooperatives liquidates or dissolves without transferring such interests to another eligible holder, the bank would need for many years to carry such interests in the name of an association no longer in existence. Further, when such interests are retired, there will be no owner to which the proceeds may be paid. To avoid such a result, it is proposed that the bank should be permitted to retire and cancel such interests so that the books may be cleared of them and the proceeds paid to the cooperative association for disposition with its other assets when it is liquidated or dissolved. Section 2(e) would provide authority to do this in accordance with rules and regulations prescribed by the Farm Credit Administration.

DEPARTMENTAL VIEWS

FARM CREDIT ADMINISTRATION,
Washington, D.C., May 11, 1961.

The Honorable the PRESIDENT OF THE SENATE,
U.S. Senate.

DEAR MR. PRESIDENT: There is transmitted herewith a proposed bill to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes. The seven amendments being suggested will be explained in the order of their numbering in the proposed bill.

AMENDMENTS TO FEDERAL FARM LOAN ACT

Section 1(a)(1): *To permit amortization plan for Federal land bank loans to provide for installments more frequently than semi-annually.* Although a Federal land bank has authority under existing law to make loans on an unamortized or partially amortized basis, loans which are made on an amortization plan are required to include an agreement for repayment by means of "a fixed number of annual or semiannual installments" (12 U.S.C., Supp. II, 771 Second). Repayment on such a plan is not the best which could be adapted to serve part-time and other farmers, such as dairy farmers, whose income is, for example, on a monthly basis. While it is expected that most land bank loans would continue to be made on an annual or a semiannual installment plan, it is deemed desirable to permit repayments more frequently than semiannually where that is more in line with the borrower's income pattern. This would be accomplished by substituting "a fixed number of one or more installments each year" for the words previously quoted in this paragraph.

Section 1(a)(2): *To amend eligibility requirements for Federal land bank loans to farming corporations.* Almost all Federal land bank loans are made to individual farmers but since 1935 the land

banks have been authorized to make loans to corporations, subject to certain limitations. In 1960, only 117 out of a total of 43,404 land bank loans were made to corporations. At first only corporations engaged in the raising of livestock were eligible but in 1955 the law was changed to also permit loans to corporations engaged in general farming operations. Under existing law (12 U.S.C. 771 sixth), a Federal land bank loan may not be made to a corporation (1) unless at least 75 percent in value and number of shares of stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan and (2) unless the owners of a like amount of stock assume personal liability for the loan.

The first of these limitations requires a special investigation as to the activities of the individual stockholders and in some instances has precluded a loan to a corporation of a type which a land bank should be able to serve. The present proposal is to substitute for the first limitation, a requirement that the principal part of the income of the corporation must be derived from farming operations. This would simplify the procedure on corporation applications and yet sufficiently safeguard the types of corporations to which loans may be made.

In lieu of the second limitation in the present law, it is proposed that stockholders assume personal liability for a loan to their corporation to the extent required under rules and regulations prescribed by the Farm Credit Administration. This would afford more flexibility and permit loans to corporations with fewer stockholders assuming personal liability than is now required; but it is expected that full personal liability will always be required of at least one or more of the responsible stockholders.

To effect such proposed changes, the existing law would be amended to provide that no land bank loan shall be made to a corporation engaged in farming operations "unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration."

Section 1(b): *To increase from 5 to 7 years the maximum maturity permitted for loans, advances, or discounts by a Federal intermediate credit bank.* The loans made or discounted by a Federal intermediate credit bank may not have a maturity of more than 5 years from the date made or discounted by the bank (12 U.S.C. 1033). To be eligible for discount at a Federal intermediate credit bank, therefore, the loans made to farmers by the production credit associations and other financing institutions may not have a maturity of more than 5 years at the time of such discount. Section 1 (b) would increase the permissible maturity from 5 to 7 years.

Intermediate-term loans, with maturities of 2 to 5 years have been in demand in most areas, to finance such capital expenditures as purchases of livestock, heavy equipment, improvement of farm buildings such as dairy barns, installation of bulk milk tanks, soil building and conservation practices, and similar items. Experience with such loans has been quite satisfactory. However, the credit banks and production credit associations, from time to time, encounter in-

dividual cases in which a 6- or 7-year maturity is needed to liquidate obligations incurred for capital purposes. It is to be expected that most intermediate-term loans will continue to all within the 2- to 5-year range.

AMENDMENTS TO FARM CREDIT ACT OF 1933

Section 2(a) : *To combine the Federal intermediate credit bank and production credit association revolving funds into a single fund available for the same purposes.* This amendment would combine the revolving fund of \$60 million, which is available for subscriptions to the capital stock of production credit associations, with the revolving fund of \$70 million authorized for subscriptions to the capital stock of the Federal intermediate credit banks, into a single revolving fund of \$130 million, all of which would be available for subscriptions to the capital stock of production credit associations and Federal intermediate credit banks. This is deemed necessary and advisable in order that the fund now available for capitalizing production credit associations, not all of which will be needed by such associations, can be made available to the Federal intermediate credit banks which are expected to require larger capital stock subscriptions than could be made from the separate fund now available to them.

Out of one of the revolving funds the Governor of the Farm Credit Administration currently subscribes to capital stock in a production credit association (12 U.S.C. 1131c, 1131e-1(a), 1131i(a)) when, in addition to the capital which can be obtained from members or other local sources, further capital is needed because of adverse conditions or rapidly increasing loan volume to enable the association to serve the sound credit needs of farmers and ranchers in its territory. Of the \$60 million available for this purpose, only \$880,000 was so invested on March 1, 1961, and for the rest of 1961 the needs for this purpose are estimated at \$2,200,000. This would leave an estimated balance of \$56,920,000 in the production credit association revolving fund on January 1, 1962.

Out of the other revolving fund the Governor currently subscribes to capital stock in the Federal intermediate credit banks (12 U.S.C. 1061 (a) (1), 1131i (e)) when it is necessary because of substantial increases in their business. Under the law, the debentures and similar obligations issued for a Federal intermediate credit bank and other borrowings may not exceed 10 times the surplus and paid-in capital of the bank (12 U.S.C. 1041). Since the funds with which a credit bank makes loans and discounts are obtained through the sale of debentures and other borrowings, it follows that as their business increases and more debentures are issued, the paid-in capital of the bank must be increased in order to stay within the statutory maximum ratio of 10 to 1. As of March 1, 1961, investments in the capital stock of the Federal intermediate credit banks out of this revolving fund totalled \$19,350,000 and it is estimated that an additional \$5,500,000 will be needed for this purpose through the rest of 1961, leaving \$15,150,000 in the fund on January 1, 1962. While this revolving fund is referred to as being \$70 million, only \$40 million has been made available therein, and the increase to \$70 million is to be made with proceeds from the retirement of the last \$30 million of Government-owned stock in the credit banks at January 1, 1957 (12

U.S.C. 1061). Thus far there have been no additions to this revolving fund from such stock retirements.

When the bill which became the Farm Credit Act of 1956 was cleared by the Budget Bureau, the letter from the Director dated March 14, 1956, included the following:

"The aggregate amount of the two revolving funds for the capitalization of the Federal intermediate credit banks and the production credit associations should be held at the present level of \$130 million. An increase in this amount does not appear to be warranted by the estimated future capital requirements of the banks and the production credit associations. There would be no objection, however, to reallocating the amounts in the two funds and providing for an increase in the fund to capitalize the Federal intermediate credit banks, if accompanied by a corresponding decrease in the production credit fund."

This objective would be accomplished by combining the two funds into a single fund which could be used for the purposes for which both funds have heretofore been available.

Section 2(b): *To prescribe amount of reserves for bad debts to be established by production credit associations.* The existing law (12 U.S.C. 1131f(a)) as to how a production credit association shall apply its earnings in excess of operating expenses at the end of each fiscal year, makes no more specific provision for a reserve for bad debts than that "provision for reasonable valuation reserves" shall be included as an operating expense. Thereunder, the present practice is for each production credit association to determine the amount to be added each year to the valuation (bad debt) reserves. It is now proposed to amend the existing law so that each production credit association would be required, in applying its earnings at the end of each fiscal year, to include as an operating expense provision for valuation reserves against loan assets in an amount equal to one-half of 1 percent of loans outstanding at the end of the fiscal year. This would be done to the extent that earnings for the year in excess of other operating expenses permit. No additions are to be made to the valuation reserves which would increase such reserves above 5 percent of loans outstanding at the end of the fiscal year. The amendment is intended to make certain the amount to be so applied; and building up such reserves to 5 percent of loans outstanding at the annual rate of one-half percent of loans outstanding is deemed appropriate and reasonable in the circumstances of such associations generally.

A further purpose of the amendment is to define a reasonable addition to the reserve for bad debts of production credit associations which will be recognized as a deduction under section 166(c) of the Internal Revenue Code of 1954. Under existing law the production credit associations frequently have to resort to court actions to sustain deductions made for bad debt reserves and this has been costly and time consuming not only to the associations but also to the United States which is represented by the Department of Justice in such actions.

Section 2 (c), (d): *To specify that a minimum of 75 percent of the voting rights in cooperative associations be owned by agricultural producers in order for such associations to be eligible for loans from a bank for cooperatives.* The 12 regional banks for cooperatives (12

U.S.C. 1134c) and the Central Bank for Cooperatives (12 U.S.C. 1134j) are authorized to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended. As there defined (12 U.S.C. 1141j), the term "cooperative association" means an association in which farmers act together in marketing their farm products, purchasing farm supplies, or furnishing farm business services, with a proviso that the association is operated for the mutual benefit of the members thereof as such producers or purchasers. The association must also conform to certain other requirements which are not involved in the present proposal. The present general regulation requires that a bank for cooperatives may not make a loan to a cooperative association unless at least 90 percent of the voting media are held by either producers (individuals, partnerships, or corporations), or other cooperative associations eligible to borrow from a bank for cooperatives. It is now proposed that this voting requirement be reduced to 75 percent or such higher percentage as the board of directors of a bank for cooperatives may determine. Such a change would enable the banks for cooperatives to serve some cooperative associations which are not able to meet the present 90 percent requirement but which are agricultural nonetheless. Section 2 (c), (d) would do this by amending the law to provide that a bank for cooperatives shall not make a loan to a cooperative association unless at least 75 percent, or such higher percent as the board of directors of the bank for cooperatives determines, of the voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such a bank.

Section 2(e): *To permit retirement of interests in a bank for cooperatives held by present or former borrower which is being liquidated or dissolved.* Cooperative associations borrowing from a bank for cooperatives acquire certain interests in the bank while they are such borrowers. Such interests include class C stock in the bank which a borrower is required to purchase (12 U.S.C. 1134d(a)(3)) or which is issued to a borrower as a patronage refund (12 U.S.C. 1134f(b)). A borrower is also allocated an interest in the surplus and contingency reserves of the bank on the basis of its patronage (12 U.S.C. 1134f(a)), which interest eventually is payable to the borrower in class C stock of the bank (12 U.S.C. 1134f(a), (b)). The class C stock of the bank may not be retired until after all class A (Government) stock is retired, and all class B (investment) stock of the same and earlier fiscal years is retired (12 U.S.C. 1134d(a)(3)). Except in a case where a borrower holding such interests defaults (12 U.S.C. 1134d(c)), it will be some years before such interests are retired and the proceeds can be paid to the holders.

If a cooperative association which was a borrower from a bank for cooperatives liquidates or dissolves without transferring such interests to another eligible holder, the bank would need for many years to carry such interests in the name of an association no longer in existence. Further, when such interests are retired, there will be no owner to which the proceeds may be paid. To avoid such a result, it is considered that the bank should be permitted to retire and cancel such interests so that the books may be cleared of them and the proceeds paid to the cooperative association for disposition with its other assets when it is liquidated or dissolved. Section 2(e) would

provide authority to do this in accordance with rules and regulations prescribed by the Farm Credit Administration.

This submission has the approval of the Federal Farm Credit Board and early consideration and enactment of the proposed bill is recommended.

The Bureau of the Budget advises that there is no objection to the presentation of this proposal from the standpoint of the administration's program.

Very truly yours,

R. B. TOOTELL, *Governor.*

TREASURY DEPARTMENT,
Washington, August 7, 1961.

HON. ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry, U.S. Senate,
Old Senate Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request of June 6, 1961, for this Department's views on S. 1927, a bill to amend the Federal Farm Loan Act and the Farm Credit Act of 1933.

The only amendment proposed by the bill which concerns this Department is one which would amend section 22(a) of the Farm Credit Act of 1933 (12 U.S.C. 1131f(a)) to provide that each production credit association shall make annual additions to a bad debt reserve in an amount equal to 0.5 percent of outstanding loans until the reserve equals 5 percent of outstanding loans. Although this proposed supervisory requirement does not amend the Internal Revenue Code and, under generally accepted legal principles, should have no determinative effect upon amounts which can be deducted as a reasonable addition to bad debt reserves for tax purposes, it is clear that the proponents of this amendment intend it to have the same effect for tax purposes as if it were an amendment to the Internal Revenue Code.

Production credit associations are federally chartered corporations which provide short-term and intermediate-term loans to farmers. Loans by the associations are usually on a budget basis for periods of up to 1 year although some loans for capital purposes are made for intermediate terms up to 5 years. The loans are usually secured by chattel mortgages on crops, livestock, and machinery.

Initially these associations, of which there are now 488, were almost entirely capitalized by the Federal Government and were tax-exempt institutions. This capital was gradually retired as borrowing members and farmers purchased substantial amounts of stock in the associations and, by law, the associations became taxable as ordinary corporations when the Government capital was retired. As of December 31, 1960, only 20 of the 488 associations were not entirely member-owned.

The production credit associations obtain funds at a relatively low rate of interest by rediscounting loans with the Federal intermediate credit banks. These intermediate credit banks are primarily capitalized with funds of the U.S. Government and obtain money at favorable rates by issuing debentures to public investors.

At the present time, the production credit associations have total capital stock and surplus of about \$300 million which amounts to about 17 percent of total outstanding loans of about \$1.7 billion. In addition, as of June 30, 1960, the associations had made provision for bad debt losses in the amount of \$27.5 million, or about 1.6 percent of outstanding loans. For the calendar year 1959, the production credit associations made provision for bad debt losses of \$6.7 million, had net earnings before Federal and other income taxes of \$12.2 million, and earnings after such taxes of \$9.9 million.

In recent years the production credit associations have been involved in a considerable amount of litigation concerning their allowable bad debt reserves for Federal income tax purposes. The details of this litigation are set forth in the report of the recent hearings on S. 1927 held on June 6, 9, and 14, 1961.

Section 166(c) of the Internal Revenue Code provides that, in lieu of taking a tax deduction for debts when they become worthless or partially worthless, a taxpayer shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts. The purpose of this bad debt reserve provision is to provide a more accurate computation of taxable income by permitting taxpayers to take tax deductions gradually in advance for reasonably anticipated bad debt losses.

The recent litigation appears to have developed because the Internal Revenue Service permitted the production credit associations to make an annual addition to their bad debt reserves based upon the particular association's own average loss experience, with a reserve ceiling of three times such average loss experience. This formula is similar to the reserve formula accorded by a Service ruling to commercial banks except that the Service did not permit the associations to take into account the heavy loss experience of other lending institutions for the period prior to the organization of the production credit associations in 1934.

The bad debt loss experience of the production credit associations since their organization to December 31, 1959, including provision for estimated losses at December 31, 1959, averaged 0.24 percent of cash advanced. However, the provision for estimated losses at December 31, 1959, totaled \$26.7 million, as compared with actual losses over a 25-year period of only \$15.6 million, so that actual losses over such period amounted to only 0.09 percent of total cash advanced.

A study of the risk problems of production credit associations from 1934 to the end of 1950 shows the highest losses (actual plus estimated) occurred in 1938 when they amounted to 0.88 percent of average amount of loans outstanding.¹ Although loss experience varied among the 12 districts during the 1934-50 period, the highest loss rate was 0.33 percent in the Springfield district, and the loss rate in the Omaha district was only one-hundredth of 1 percent. Only 8 of the 688 associations organized had been placed in liquidation because of actual or anticipated losses. These eight associations were placed in liquidation during the years 1935-38 and their loss on loans amounted to 5.2 percent.

¹ "Risk Problems of Production Credit Associations," Farm Credit Administration, Washington, D.C., Bulletin CR-5, January 1952.

Another study of the production credit associations indicates that the heaviest losses of the associations occurred during the first few years after organization in 1934 because a large number of associations were organized on a "crash program" basis and many poor loans were made before much educational and training work was possible. Because of lack "of experience and with sound loaning policies not well established at that time, many mistakes were made."²

Because the loss experience of the production credit associations generally has been very good throughout their existence, the reserves allowed by the Service frequently were less than 1 percent of outstanding loans, although in some instances particular institutions were allowed reserves in excess of 3 percent of outstanding loans. In the courts, several production credit associations have been allowed substantially higher bad debt reserves than those accorded by the Service because the associations were permitted to take into account the large loss experience of other lending institutions during the economic collapse of the early 1930's.

There is some indication that at the present time the Department of Justice, in settling pending litigation, is permitting production credit associations to utilize the bad debt reserve formula applicable to commercial banks and also is allowing associations to take into account the loss experience of other comparable lending institutions during the early 1930's. The National Office of the Internal Revenue Service is now reconsidering its prior position on this matter.

The bad debt reserve formula applicable to commercial banks is the most liberal reserve formula accorded to any taxable corporation because most business institutions must compute bad debt reserves based upon their own recent experience and are not permitted to take into account loss experience resulting from the economic collapse of the 1930's. (The special statutory reserve formula applicable to mutual savings banks and savings and loan associations cannot be considered a true bad debt reserve. See "Treasury Department Report of July 1961 on the Taxation of Mutual Savings Banks and Savings and Loan Associations," a copy of which is attached.) A statutory 5 percent bad debt reserve formula would give to a large number of associations a bad debt reserve which would be more than double the reserve allowable under the very generous commercial bank formula. This would result in a substantial understatement of taxable income, with a consequent loss in Federal revenue.

At the present time, the average reserve ceiling of commercial banks employing the bad debt reserve formula amounts to 2.4 percent of eligible loans. It is estimated that, if a 5 percent reserve ceiling were applied to commercial banks, the consequent loss to Federal revenues would amount to well over \$1 billion over a short period of time, plus a substantial continuing revenue loss as the banks increased their outstanding loans.

In summary, it appears that appropriate bad debt reserves for production credit associations can best be resolved on an administrative basis; that the proposed statutory 5 percent reserve ceiling cannot be justified from the viewpoint of a logical and equitable application of the income tax law even when taking into account the large loss experi-

² C. R. Arnold, "1933-58 Farmers Build Their Own Production Credit System." Farm Credit Association, Circular E-45, August 1948.

ence of lending institutions during the economic collapse of the 1930's; and that enactment of a 5 percent reserve ceiling for production credit associations, if used as a precedent for comparable lending institutions, would entail revenue losses substantially in excess of \$1 billion.

In view of the foregoing, the Treasury Department opposes the enactment of the bad debt reserve provision contained in S. 1927 to the extent that such provision is intended to affect the amount of allowable additions to reserves under section 166(c) of the Internal Revenue Code. However, the Department expresses no position as to the merits of the reserve provision contained in S. 1927 if it should be proposed for enactment solely as a supervisory requirement unrelated to the deduction of additions to bad debt reserves for Federal income tax purposes and if the congressional intent to this effect is clearly specified.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY, *Assistant Secretary.*

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman) :

FEDERAL FARM LOAN ACT

TITLE I.—FEDERAL FARM LOANS

SEC. 12. * * *

* * * * *

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of [a fixed number of annual or semiannual installments] *a fixed number of one or more installments each year* sufficient to cover, first, a charge on the loan at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding, except with the approval of the Governor of the Farm Credit Administration, 1 per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within a agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made the mortgagor may, upon any regular installment date, make in advance any number of payments or any portion thereof on account of the principal of his loan as provided by his contract or pay the entire principal of such loan, under the rules and regulations of the Farm Credit Administration: *And provided further*, That under the rules and regulations of the Farm Credit Administration any land

bank may agree, at the time a loan is made or thereafter, that the mortgagor may make such payments or portions of payments in advance or pay the entire principal of such loan during the first five years the loan is in effect: *And provided further*, That any land bank may make loans on an unamortized or partially amortized basis, under rules and regulations issued by the Farm Credit Administration.

* * * * *

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in farming operations or to any other person unless the principal part of his income is derived from farming operations. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased. As used in this paragraph (1) the term "person" includes an individual or a corporation engaged in farming operations; and (2) the term "corporation" includes any incorporated association; but no such loan shall be made to a corporation [(A) unless all the stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan, except in a case where the Farm Credit Administration permits the loan if at least 75 per centum in value and number of shares of the stock of the corporation is owned by the individuals personally actually so engaged, and (B) unless the owners of at least 75 per centum in value and number of shares of the stock of the corporation assume personal liability for the loan.] *unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration.* No loan shall be made to any corporation which is a subsidiary of, or affiliated (either directly or through substantial identity of stock ownership) with, a corporation ineligible to procure a loan in the amount applied for.

* * * * *

TITLE II.—FEDERAL INTERMEDIATE CREDIT BANKS

* * * * *

SEC. 202. * * *

* * * * *

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal intermediate credit bank of not more than [five] *seven* years. Any Federal intermediate credit bank may in its discretion sell loans or discounts made under this section, with or without its endorsement and any Federal intermediate credit bank may in its discretion purchase such loans or discounts with or without such endorsement.

* * * * *

FARM CREDIT ACT OF 1933

* * * * *

SEC. 5. (a) There is hereby created a revolving fund of not to exceed \$60,000,000 which shall be made up as follows:

* * * * *

(e) The amount of all balances, collections, and appropriations allocated under subsection (a) to the revolving fund created thereunder, which is in excess of \$120,000,000, is hereby made available to the Governor of the Farm Credit Administration for the establishment of a revolving fund of not to exceed \$70,000,000. Out of such revolving fund, the Governor is authorized to allocate and, with the approval of the Secretary of the Treasury, to expend such amounts as he deems necessary for subscriptions to the capital stock of Federal Intermediate Credit Banks.

(f) *The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection.*

* * * * *

SEC. 22. (a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings *for such year* in excess of operating expenses (including provision for [reasonable valuation reserves) during such fiscal year], *valuation reserves against loan assets in an amount equal to one-half of 1 per centum of loans outstanding at the end of the fiscal year, to the extent that earnings for the year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made)* first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the Federal intermediate credit bank.

* * * * *

SEC. 36. * * *

* * * * *

(d) *Notwithstanding any other provision of this Act, in the case of liquidation or dissolution of any present or former borrower from a bank for cooperatives, the bank, may, in accordance with rules and regulations prescribed by the Farm Credit Administration, retire and cancel any capital stock or allocated surplus and contingency reserves or other equity interest, in the bank owned by such borrower at the fair book value thereof, not exceeding par, and, to the extent required, corresponding shares and allocations or other equity interests held by the regional bank in the central bank shall be retired.*

* * * * *

87TH CONGRESS
1ST SESSION

S. 1927

[Report No. 747]

IN THE SENATE OF THE UNITED STATES

MAY 22, 1961

Mr. ELLENDER (by request) introduced the following bill; which was read twice
and referred to the Committee on Agriculture and Forestry

AUGUST 16, 1961

Reported by Mr. HOLLAND, with amendments

[Omit the part struck through and insert the part printed in italic]

A BILL

To amend further the Federal Farm Loan Act and the Farm
Credit Act of 1933, as amended, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) section 12 of the Federal Farm Loan Act, as
4 amended (12 U.S.C. 771), is amended—

5 (1) by substituting “a fixed number of one or more
6 installments each year” for “a fixed number of annual
7 or semiannual installments” in paragraph “Second”
8 thereof; and

9 (2) by substituting in the fourth sentence of para-
10 graph “Sixth” thereof the following for all that comes
11 after “but no such loan shall be made to a corporation”:

1 “unless the principal part of its income is derived from
2 farming operations and unless owners of stock in the
3 corporation assume personal liability for the loan to the
4 extent required under rules and regulations prescribed
5 by the Farm Credit Administration.”.

6 (b) Section 202 (c) of the Federal Farm Loan Act,
7 as amended (12 U.S.C., supp. II, sec. 1033), is amended
8 by changing the word “five” to the word “seven”.

9 SEC. 2. The Farm Credit Act of 1933, as amended, is
10 amended—

11 (1) by adding the following subsection to section 5
12 thereof (12 U.S.C. 1131i) :

13 “(f) The revolving funds created by subsections (a)
14 and (e) of this section are hereby combined into a single
15 revolving fund which shall be available for all purposes
16 for which both such funds were heretofore available, and
17 reference in any provision of law to the revolving fund
18 created by said subsection (a) or said subsection (e) shall
19 be deemed a reference to the single revolving fund created
20 by this subsection.”;

21 (2) by changing section 22 (a) thereof (12 U.S.C.
22 1131f (a)) to read:

23 “(a) Each production credit association shall, at the end
24 of each fiscal year, apply the amount of its earnings for such
25 year in excess of operating expenses (including provision

1 for valuation reserves against loan assets in an amount equal
 2 to one-half of 1 per centum of loans outstanding at the end of
 3 the fiscal year, to the extent that earnings for the year in
 4 excess of other operating expenses permit, but no additions
 5 thereto shall be made which would increase such reserves
 6 above 5 per centum of loans outstanding at the end of the
 7 fiscal year) until such reserves equal or exceed $3\frac{1}{2}$ per centum
 8 of loans outstanding at the end of the fiscal year beyond
 9 which $3\frac{1}{2}$ per centum further additions to such reserves are
 10 not required but may be made), first, to the restoration of
 11 the impairment, if any, of capital; and, second, to the es-
 12 tablishment and maintenance of a surplus account, the mini-
 13 mum amount of which shall be prescribed by the Federal
 14 intermediate credit bank.”; and

15 (3) by inserting in the first paragraph of section
 16 41 thereof (~~12 U.S.C. 1134c~~) immediately before the
 17 semicolon at the end of clause “(a)” the following:
 18 “, but no loan shall be made to any such cooperative
 19 association unless at least 75 per centum, or such higher
 20 per centum as the board of directors of a bank for
 21 cooperatives determines, of the voting rights are held
 22 by agricultural producers or other cooperative associa-
 23 tions eligible to borrow from such bank” and by sub-
 24 stituting in the second paragraph of said section 41 for
 25 the words “as defined in the Agricultural Marketing

1 Act, as amended,” the words “eligible for loans under
2 the foregoing provisions of this section”;

3 ~~(4)~~ by inserting in the first paragraph of section 34
4 thereof ~~(12 U.S.C. 1134j)~~ immediately before the
5 semicolon at the end of clause “(a)” the following:
6 “~~—~~but no loan shall be made to any such cooperative
7 association unless at least 75 per centum, or such higher
8 per centum as the board of directors of the central
9 bank determines, of the voting rights are held by agri-
10 cultural producers or other cooperative associations
11 eligible to borrow from such bank” and by substituting
12 in the last paragraph of said section 34 for the words
13 “as defined in the Agricultural Marketing Act, as
14 amended,” the words “eligible for loans under the fore-
15 going provisions of this section”; and

16 ~~(5)~~ (3) by adding the following subsection to sec-
17 tion 36 thereof (12 U.S.C. 1134l) :

18 “(d) Notwithstanding any other provision of this Act,
19 in the case of liquidation or dissolution of any present or
20 former borrower from a bank for cooperatives, the bank,
21 may, in accordance with rules and regulations prescribed by
22 the Farm Credit Administration, retire and cancel any capi-
23 tal stock or allocated surplus and contingency reserves or
24 other equity interest, in the bank owned by such borrower
25 at the fair book value thereof, not exceeding par, and, to

1 the extent required, corresponding shares and allocations
2 or other equity interests held by the regional bank in the
3 central bank shall be retired.”.

87TH CONGRESS
1ST SESSION

S. 1927

[Report No. 747]

A BILL

To amend further the Federal Farm Loan Act
and the Farm Credit Act of 1933, as
amended, and for other purposes.

By Mr. EILENDER

MAY 22, 1961

Read twice and referred to the Committee on
Agriculture and Forestry

AUGUST 16, 1961

Reported with amendments

Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF
BUDGET AND FINANCE

(For information only;
should not be quoted
or cited)

CONTENTS

Issued August 22, 1961
For actions of August 21, 1961
87th-1st, No. 144

Appropriations.....	4,8,10	
Area redevelopment.....	28	
Botanic gardens.....	14,30	
Civil defense.....	20	
Claims.....	5	
Credit.....	34	
Dairy industry.....	25	
Disaster relief.....	6	
Farm loans.....	3	
Farm program.....	31	
Fisheries.....	17	
Foreign aid.....	11,26	
Forestry.....	7,16,24	
Hog cholera.....	1,12	
Lands.....	16,27	
Legislative program.....	9	
Monopolies.....	33	
Patents.....	22	
Perishable commodities.....	15	
Personnel.....	19	
Research.....	32	
Rural redevelopment.....	32	
Saline water.....	23,32	
Shipping.....	18	
Surplus commodities.....	13	
Tobacco.....	2	
Water compact.....	21	
Wheat.....	29	

HIGHLIGHTS: Senate passed bills to: Provide for hog cholera eradication. Permit transfer of tobacco allotments. Clarify and simplify operations of Farm Credit agencies. Senate debated State-Justice appropriation bill. Sen. Bennett introduced and discussed bill to establish research center for rural redevelopment.

SENATE

- HOG CHOLERA.** Passed without amendment S. 1908, to direct the Secretary of Agriculture to initiate a national hog cholera eradication program, restrict the interstate movement of virulent or other hog cholera virus as necessary, and establish a committee to advise on the program. p. 15368
- TOBACCO ALLOTMENTS.** Passed as reported H. R. 1022, to authorize leasing of tobacco acreage allotments for the crop years 1962 and 1963. As passed by the Senate, the bill would be inapplicable with respect to burley tobacco, and in the case of Maryland (type 32), leasing would be limited to those farms which had planted at least 75% of their Maryland allotments in each of the years 1960 and 1961. The leasing of allotments would be permitted only between farms in the same county, and not more than 5 acres would be permitted to be leased and transferred to any farm. pp. 15375-7
- FARM LOANS.** Passed as reported S. 1927, to make a number of amendments to simplify and clarify the operations of institutions supervised by FCA. pp. 15369-71
- STATE-JUSTICE APPROPRIATION BILL.** Began debate on this bill, H. R. 7371. pp. 15345-6, 15369, 15371-5, 15377-8, 15390-412

5. CLAIMS. Passed without amendment H. R. 6835, to simplify the payment of certain miscellaneous judgments and the payment of certain compromise settlements in State and foreign court cases. This bill will now be sent to the President. p. 15361
6. DISASTER RELIEF. Passed without amendment S. 1742, to authorize Federal assistance to Guam, American Samoa, and the Trust Territory of the Pacific Islands in major disasters. p. 15367
7. FORESTRY. Sen. Bennett submitted and discussed amendments which he intends to propose to S. 174, the wilderness preservation bill. p. 15345
8. APPROPRIATIONS. Both houses received a Budget Bureau letter reporting, pursuant to law, that the "Marketing research and service" appropriation has been apportioned on a basis which indicates the necessity for a supplemental appropriation estimate; to Appropriations Committees. pp. 15343, 15487
9. LEGISLATIVE PROGRAM. Majority Leader Mansfield stated that "beginning this week, the Senate can anticipate being in session every Saturday from now on." p. 15339

HOUSE

10. APPROPRIATIONS. House conferees were appointed on H. R. 7035, the Labor-Health, Education, and Welfare appropriation bill. Senate conferees have been appointed. p. 15414
11. FOREIGN AID. Passed S. 1983, the foreign aid authorization bill, with an amendment inserting the text of H. R. 8400, which had previously been passed by the House (p. 15414). Conferees were appointed in both houses. pp. 15378-90, 15414
Rep. Stratton inserted three articles, "Procurement of U. S. Foreign Aid Materials In the United States Since 1940," "Foreign Aid: Facts and Fallacies," and "U. S. Per Capita Foreign Aid." pp. 15479-81
12. HOG CHOLERA. At the request of Rep. Weaver, passed over H. R. 7176, to provide for a national hog cholera eradication program. p. 15421
13. SURPLUS COMMODITIES. Passed without amendment S. 1873, to permit CCC commodities donated for use in home economics courses to also be used for training college students if the same facilities and instructors are used for training both high school and college students in home economics courses. This bill will now be sent to the President. p. 15425
14. BOTANIC GARDEN. At the request of Rep. Gross, passed over H. R. 5628, to provide for a study and investigation of desirability and feasibility of establishing and maintaining the National Tropical Botanic Garden. p. 15430
15. PERISHABLE COMMODITIES. A subcommittee of the Agriculture Committee voted to report to the full Committee with amendments H. R. 5023, to make various amendments to the Perishable Agricultural Commodities Act. p. D739
16. PUBLIC LANDS. Passed without amendment S. 702, to authorize the Secretary of Agriculture to convey a tract of forest land in Wyoming to the town of Afton. This bill will now be sent to the President. p. 15422
Passed without amendment H. R. 3879, to authorize the Secretary of Agriculture to convey to Wyoming for agricultural purposes the SCS Faron Pilot Farm

DEPARTMENTS OF STATE AND JUSTICE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS, 1961

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar No. 707, H.R. 7371, and that the bill be laid before the Senate and made the unfinished business.

The ACTING PRESIDENT pro tempore. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (H.R. 7371) making appropriations for the Departments of State and Justice, the Judiciary, and related agencies for the fiscal year ending June 30, 1962, and for other purposes.

The ACTING PRESIDENT pro tempore. Is there objection to the request of the Senator from Montana?

There being no objection, the Senate proceeded to consider the bill.

Mr. MANSFIELD. Mr. President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

Mr. JAVITS. Mr. President, will the Senator withhold his request for a minute?

Mr. MANSFIELD. I withhold the suggestion briefly, without losing my right to the floor.

Mr. JAVITS. I have an amendment to the appropriation bill, which I announced the other day, which deals with the U.S. Information Agency and has nothing to do with the other problem, which may take a good deal more time. I wondered what would be the convenience of the Senator as to debate on that?

Mr. MANSFIELD. If the Senator from New York will indulge me, I suggest that ought to be offered later in the afternoon, after the chairman of the committee has taken over and gotten action on the committee amendments and related matters.

Mr. JAVITS. I thank the Senator.

Mr. MANSFIELD. Mr. President, I suggest the absence of a quorum with the understanding that I shall not lose my right to the floor.

The ACTING PRESIDENT pro tempore. With that understanding the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

AMENDMENT OF FARM LOAN ACT AND FARM CREDIT ACT.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the unfinished business be temporarily laid aside and that the Senate proceed to the consideration of Calendar No. 723.

The ACTING PRESIDENT pro tempore. The bill will be stated by title for the information of the Senate.

The LEGISLATIVE CLERK. A bill (S. 1927) to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

The ACTING PRESIDENT pro tempore. Is there objection to the request of the Senator from Montana?

There being no objection, the Senate proceeded to consider the bill (S. 1927) to amend further the Federal Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes, which had been reported from the Committee on Agriculture and Forestry, with amendments, on page 3, line 4, after the word "permit", to strike out "but no additions thereto shall be made which would increase such reserves above 5 per centum of loans outstanding at the end of the fiscal year" and insert "until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made"; in line 14, after the word "bank", to insert "and"; after line 14, to strike out:

(3) by inserting in the first paragraph of section 41 thereof (12 U.S.C. 1134c) immediately before the semicolon at the end of clause "(a)" the following: ", but no loan shall be made to any such cooperative association unless at least 75 per centum, or such higher per centum as the board of directors of a bank for cooperatives determines, of the voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such bank" and by substituting in the second paragraph of said section 41 for the words "as defined in the Agricultural Marketing Act, as amended," the words "eligible for loans under the foregoing provisions of this section";

On page 4, after line 2, to strike out:

(4) by inserting in the first paragraph of section 34 thereof (12 U.S.C. 1134j) immediately before the semicolon at the end of clause "(a)" the following: ", but no loan shall be made to any such cooperative association unless at least 75 per centum, or such higher per centum as the board of directors of the central bank determines, of the voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such bank" and by substituting in the last paragraph of said section 34 for the words "as defined in the Agricultural Marketing Act, as amended," the words "eligible for loans under the foregoing provisions of this section"; and

And, at the beginning of line 16, to strike out "(5)" and insert "(3)"; so as to make the bill read:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 12 of the Federal Farm Loan Act, as amended (12 U.S.C. 771), is amended—

(1) by substituting "a fixed number of one or more installments each year" for "a fixed number of annual or semiannual installments" in paragraph "Second" thereof; and

(2) by substituting in the fourth sentence of paragraph "Sixth" thereof the following for all that comes after "but no such loan shall be made to a corporation": "unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required

under rules and regulations prescribed by the Farm Credit Administration."

(b) Section 202(c) of the Federal Farm Loan Act, as amended (12 U.S.C., supp. II, sec. 1033), is amended by changing the word "five" to the word "seven".

SEC. 2. The Farm Credit Act of 1933, as amended, is amended—

(1) by adding the following subsection to section 5 thereof (12 U.S.C. 1131i):

"(f) The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection."

(2) by changing section 22(a) thereof (12 U.S.C. 1131f(a)) to read:

"(a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings for such year in excess of operating expenses (including provision for valuation reserves against loan assets in an amount equal to one-half of 1 per centum of loans outstanding at the end of the fiscal year, to the extent that earnings for the year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made), first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the Federal intermediate credit bank"; and

(3) by adding the following subsection to section 36 thereof (12 U.S.C. 1134l):

"(d) Notwithstanding any other provision of this Act, in the case of liquidation or dissolution of any present or former borrower from a bank for cooperatives, the bank, may, in accordance with rules and regulations prescribed by the Farm Credit Administration, retire and cancel any capital stock or allocated surplus and contingency reserves or other equity interest, in the bank owned by such borrower at the fair book value thereof, not exceeding par, and, to the extent required, corresponding shares and allocations or other equity interests held by the regional bank in the central bank shall be retired."

Mr. MUSKIE. Mr. President, this bill was passed over on the call of the calendar because of a question raised with the calendar committee bearing upon a statement made in the report. The Senator from Florida [Mr. HOLLAND] is present and is willing to make the information in this regard part of the RECORD. I should like to direct a question to him, if I may.

Mr. HOLLAND. Mr. President, I shall be happy to respond, if I can, to any question the Senator from Maine may have.

Mr. MUSKIE. Mr. President, at the bottom of page 10 and the top of page 11, there appears a statement in the report from the Treasury Department, as follows:

In summary, it appears that appropriate bad debt reserves for production credit associations can best be resolved on an administrative basis; that the proposed statutory 5 percent reserve ceiling cannot be justified from the viewpoint of a logical and equitable application of the income tax law even when taking into account the large loss experience

of lending institutions during the economic collapse of the 1930's; and that enactment of a 5 percent reserve ceiling for production credit associations, if used as a precedent for comparable lending institutions, would entail revenue losses substantially in excess of \$1 billion.

The question which arose in the calendar committee was as to that tax impact suggested by the section of the report. I should appreciate having the Senator's comments.

Mr. HOLLAND. I am very happy to respond to that question, Mr. President.

In the first place, the bill would amend various sections relative to the Farm Credit Administration units, in furtherance of the purpose which we entered into in 1953, to have all those units pass under the control of the growers who were using them. The one section which seems to have brought any difficulty is the one referred to by the distinguished Senator from Maine. That section would permit the production credit associations to set up a bad debt reserve of 3½ percent of their outstanding loans on a basis of transferring to that reserve one-half percent each year until the reserve is completed.

The subject matter is one that has brought on a great deal of trouble and litigation. There have been 23 suits in the Federal district courts relative to the reserves set up by Production Credit Associations, which now, in most cases, belong entirely to the growers who are using them. Of the 488 associations, I believe now there are only 13 in which there is any Federal capital still invested. These suits are referred to on page 10 of the committee report. If the distinguished Senator will look at that page, I think he will see a rather brief statement appearing in the third paragraph on that page, which I shall read into the RECORD:

In such actions brought by 23 of the associations, the courts allowed the claims of 17 associations in full; in 3 cases a substantial part of their claims were allowed; and only in 3 cases were the additions claimed disallowed in total. These decided cases are summarized at pages 77-79 of the hearings on S. 1927 under the heading "Percentages of Outstanding Loans Accepted by Courts as Appropriate for Bad Debt Reserves of Production Credit Associations in Passing on Additions Thereto To Be Allowed as Deductions for Federal Income Tax Purposes." In one case, the court allowed the association accumulated bad debt reserves of only 3 percent of outstanding loans even though more was claimed. For other associations, accumulations as high as 4.09, 3.76, 4.15, 3.88, 4.33, 4.65, 4.76, and 4.49 percent of outstanding loans were allowed by the courts as bad debt reserves. Smaller accumulations were involved for most of the associations because they had not yet built up their reserves any further for the years in dispute. Inasmuch as such court decisions now have delineated what are deemed reasonable bad debt reserves for the production credit associations, it is considered that the associations should not have to continue to resort to court actions to sustain deductions made for bad debt reserves. Such a procedure is costly and time consuming not only to the associations but also to the United States which is represented by the Department of Justice in such actions. The reasons for specifying in the law the amounts which the production credit associations are to add to their bad debt reserves each year were gone into at length in the hearings on S. 1927.

As the bill was originally drafted by the Farm Credit Administration and introduced by the distinguished Senator from Louisiana [Mr. ELLENDER], the chairman of our committee, it would have provided for an authorization of reserves to the extent of 5 percent of the outstanding loans. The committee, on seeing the record of these 23 suits, noting that so many of them were in the area between 3½ percent and 5 percent, decided that, as a matter of caution, we should approve the establishment of a reserve of 3½ percent, with the provision in the bill that if higher reserves were needed, under the method of doing business of any particular production credit association, such higher reserve could be agreed upon between the association and the Commissioner of Internal Revenue.

Earlier than our drafting of the amendment, which is now in the bill, and which we think is entirely reasonable, the question had been submitted to the Department of the Treasury. The submission brought forth the letter from which the distinguished Senator from Maine has quoted, in part. If the Senator will look at the report, he will see the entire letter of the Treasury Department set forth on page 17 and following to the middle of page 20. It is a letter addressed to the Senator from Louisiana [Mr. ELLENDER] from Stanley S. Surrey, Assistant Secretary. However, the Senator will note that on page 19, the place at which this "\$1 billion dream" came into the picture, there appears the following:

At the present time, the average reserve ceiling of commercial banks employing the bad debt reserve formula amounts to 2.4 percent of eligible loans. It is estimated that, if a 5-percent reserve ceiling were applied to commercial banks, the consequent loss to Federal revenues would amount to well over \$1 billion over a short period of time, plus a substantial continuing revenue loss as the banks increased their outstanding loans.

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. MUSKIE. The first point that ought to be made is that the bill provides for 3½ percent rather than 5 percent.

Mr. HOLLAND. The Senator is correct. Furthermore, to bring about any such great loss as Mr. Surrey indicates in his letter would require not only a 5 percent reserve, but also would require that the reserve be made applicable to commercial banks, which he mistakenly refers to in the paragraph which the Senator has read into the RECORD as "similar institutions." They are not similar institutions, because the commercial banks lend from deposited funds, funds which are deposited by their customers, whereas the production credit associations lend entirely from borrowed funds, on which they can have only a small markup in the interest rate under the law.

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. HOLLAND. I yield.

Mr. MUSKIE. What, if any, would be the impact of this specific provision

with respect to the lending institutions covered by it upon tax revenues?

Mr. HOLLAND. It would be completely negligible, because the courts have repeatedly upheld reserves greater than 3½ percent. What we are trying to do is to establish a figure which would give repose to these organizations—488 of them—which exist for only one purpose. I was about to add that whereas commercial banks can lend for many purposes, these institutions, which lend only borrowed money, can lend for only one purpose, and that is the production of agricultural crops on a short-term basis, so the Production Credit Associations are in no sense comparable to commercial banks. The committee, with what I thought was an excess of caution, reduced the 5-percent reserve figure to 3½ percent. Of course, it applies only to the production credit associations. As the Senator has already noted, in many instances the courts have upheld reserves over 3½ percent in actually litigated cases.

Mr. MUSKIE. Mr. President, I express my appreciation to the distinguished Senator from Florida. He has answered to my satisfaction the questions which were raised by the calendar committee.

Mr. HOLLAND. I thank the distinguished Senator.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point a general explanation of the bill, which I shall not weary the Senate by reading, but merely place it in the RECORD as an explanation of the bill.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR HOLLAND

This bill makes several technical changes in the laws relating to the cooperative credit system regulated by the Farm Credit Administration.

Two of these changes relate to the Federal land banks. The Federal land banks are the long-term real estate lending agencies of the farm credit system. They are entirely borrower owned. The first of the amendments relating to the Federal land banks permits installment payments on loans made by the banks to be scheduled more frequently than semiannually. The law now provides that each mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of a fixed number of annual or semiannual installments. Where the borrower's income is received on a monthly basis or some other basis more frequently than semiannually, as is the case for instance with milk producers, a monthly or other repayment schedule may be preferable to an annual or semiannual schedule. The bill would permit the most suitable arrangement to be made.

The second amendment relating to the Federal land banks would make it easier for a farm which had incorporated to obtain a loan. Many family farms are incorporated today for a variety of purposes. For instance, incorporation makes it easier to divide up the various interests among the children when the parents die. At present Federal land banks may make loans to corporations only where the owners of 75 percent of the stock are actually farming on the land and owners of a like amount of stock assume personal liability for the loan. Thus if the stock should descend to two sons in equal parts and only one of them

remains on the farm the Federal land bank could not make a loan to the corporation. The bill would amend this to permit a loan to a farming corporation if the owners of stock in the corporation assume personal liability for the loan to the extent required under the rules and regulations prescribed by the Farm Credit Administration.

Three of the changes made by the bill relate to the intermediate credit agencies; namely, the Federal intermediate credit banks and the production credit associations.

At present the maximum maturity for loans or discount by the Federal intermediate credit banks is 5 years. The bill would make this 7 years. Experience has shown that while maturities of 2 to 5 years are satisfactory in most cases of loans made for such purposes as purchases of livestock and heavy equipment, improvement of farm buildings, and installation of bulk milk tanks, the banks at times encounter individual cases in which a 6- or 7-year maturity is needed to liquidate the obligation.

The second amendment relating to the intermediate credit agencies would combine the revolving funds available for subscription by the Government to the stock of the production credit associations and the Federal intermediate credit banks. At present there is a revolving fund of \$60 million available for subscription to the capital stock of production credit associations, and a revolving fund of \$70 million authorized for subscription to the capital stock of the Federal intermediate credit banks. Of the latter \$70 million authorized revolving fund, only \$40 million has actually been made available and the increase to \$70 million is to be made with proceeds from the retirement of the last \$30 million of Government-owned stocks in the credit banks at January 1, 1957. Only a small portion of the \$60 million revolving fund is needed for the production credit associations. However, the Federal intermediate credit banks may have greater needs than can be supplied by the revolving fund now available to them. The law prescribes that the debentures and similar obligations issued for a Federal intermediate credit bank and other borrowings may not exceed 10 times the surplus and paid-in capital of the bank. As the banks expand their business in order to meet farmers' needs for intermediate credit, it is therefore necessary that they issue additional stock. As of March 1, 1961, investments in the capital stock of the credit banks out of the revolving fund totaled \$19,350,000, and it is estimated that an additional \$5,500,000 will be needed through the rest of this year, leaving \$15,150,000 of the original \$40 million available after this year. The production credit associations obtain their funds by discounting notes with the Federal intermediate credit banks. The most effective way, therefore, of providing the production credit associations with needed funds is to permit use of both revolving funds for the purchase of stock in the Federal intermediate credit banks, thereby expanding the base for borrowing by the Federal intermediate credit banks and increasing their ability to discount the notes of the production credit associations.

The third change made by the bill with respect to intermediate credit agencies relates to the production credit associations. With the committee amendment, it requires them to set aside from each year's earnings an amount equal to one-half percent of their outstanding loans for a bad debt reserve until such reserve equals 3½ percent of outstanding loans, after which increases in the reserve are permitted, but not required. At present the law permits the establishment of a bad debt reserve without limitation and without requirement as to the setting up of any specific amount. The production credit

associations were not subject to Federal income taxes so long as the United States held any class A stock in them. At present the Government holds class A stock in only 13 associations out of a total of 488, so that the remaining 475 associations are now subject to Federal income tax. The first of the associations to file Federal income tax returns began doing so in 1945. Since that time the Internal Revenue Service has questioned the reasonableness of the bad debt reserves of the associations in a great number of cases. Twenty-three associations have brought suit against the Government to recover the amount of taxes paid as a result of the disallowance of bad debt reserve deductions by the Internal Revenue Service. In 17 of these 23 cases the courts allowed the associations' claims in full. In three cases the courts allowed a substantial part of the associations' claims, and in only three cases were the claims disallowed in total. The courts have allowed bad debt reserves as high as 4.76 percent of outstanding loans. The bill, by requiring the production credit associations to accumulate a bad debt reserve of 3½ percent of outstanding loans, would be legislatively determining a reasonable bad debt reserve for production credit associations which ought to be determinative of the question of reasonableness for the purpose of the Federal income tax laws as well. In view of the fact that a number of courts have allowed bad debt reserves in excess of 3½ percent, the reasonableness of a reserve of this amount should hardly be subject to question.

The bill as introduced prescribed a maximum bad debt reserve of 5 percent. In view of the objections of the Internal Revenue Service, whose letter is set out in the committee report, the committee has recommended a required bad debt reserve of 3½ percent and a permissive bad debt reserve above that without limit. In the case of bad debt reserves above 3½ percent then, the law would be left as it now is and the reasonableness of the excess would be for administrative determination.

The last change by the bill relates to the banks for cooperatives and would permit the retirement of the interests in any bank for cooperatives held by a cooperative which is liquidated or dissolved. Cooperative associations borrowing from banks for cooperatives are required to purchase class C stock in the bank. Such stock may also be issued to the cooperative as a patronage dividend. The cooperative is also allocated an interest in the surplus and contingency reserves of the bank which eventually is payable in class C stock. Class C stock may not be retired until after all class A stock owned by the Government is retired and all class B stock owned by investors issued in the same or earlier fiscal years is retired. It will be some years before such interests are retired and the proceeds can be paid to the holders. When that time comes any interests of former borrowers who have liquidated or dissolved will present a very difficult problem unless the banks are permitted to retire and cancel their interests upon dissolution.

As introduced the bill also contained another provision which would have permitted the banks for cooperatives to make loans to cooperatives, even though only 75 percent of their voting rights were held by farmers. At present the requirement is 90 percent. For the reasons stated in the report the committee thought this provision might not be wise and has recommended its deletion from the bill.

The ACTING PRESIDENT pro tempore. The question is on agreeing to the committee amendments.

The amendments were agreed to.

Mr. McCLELLAN. Mr. President, a parliamentary inquiry.

The ACTING PRESIDENT pro tempore. The Senator will state it.

Mr. McCLELLAN. What bill is before the Senate?

The ACTING PRESIDENT pro tempore. S. 1927.

The bill is open to further amendment. If there be no further amendment to be proposed, the question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading, was read the third time, and passed.

DEPARTMENTS OF STATE AND JUSTICE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS, 1962

The Senate resumed the consideration of the bill (H.R. 7371) making appropriations for the Departments of State and Justice, the Judiciary, and related agencies for the fiscal year ending June 30, 1962, and for other purposes.

Mr. McCLELLAN. Mr. President, the Committee on Appropriations has reported to the Senate, by unanimous vote, the bill H.R. 7371 covering fiscal year 1962 appropriations for the Departments of State and Justice, the Judiciary, and related agencies.

The bill provides total appropriations of \$761,452,550. This is an increase of \$10,152,500 over the House bill and \$15,077,560 over the 1961 appropriations, but is \$44,131,652 under the revised estimates for fiscal 1962.

The committee determined that the additional sum over the amount recommended by the House was essential to adequately provide for the additional needs of these Departments and agencies in fiscal year 1962 and would enable the State Department and U.S. Information Agency to expand their programs in highly critical areas, especially in Africa and Latin America.

The committee held 15 days of hearings, and over 1,200 pages of testimony were taken. Every consideration was given to each restoration requested and the justifications presented in support thereof. In measuring the need for additional funds, the committee was deeply mindful of the heavy responsibilities presently imposed upon these offices, particularly in the light of mounting world tensions. At the same time, the committee was mindful of the necessity for curtailing or eliminating nonessential expenditures and conserving U.S. dollars where practicable.

The details of the changes recommended by the committee are set forth in the report which is on each Member's desk, and I shall only briefly outline the more significant changes made in the House bill.

For the Department of State, \$5,217,000 was added to the House bill. Of this amount, \$2,750,000 is for "Salaries and expenses" of the Department and Foreign Service. About \$1 million is allowed to strengthen the security activities and the balance is to expand such items

as the language training program, the trade expansion program, and so forth. Also provided is \$1,600,000 in the "Special foreign currency program" for international educational exchange activities. This will provide a total appropriation of \$35,200,000—\$27 million in the regular dollar appropriation and \$8,200,000 in the "Special foreign currency program." With funds previously appropriated, this will permit an exchange program of \$43,957,985 for fiscal 1962. Members of the Senate will be interested to know that the committee provided \$150,000 for the U.S. Citizen Commission on NATO, which together with authorization to use not to exceed \$122,130 of the unused funds provided in fiscal 1961, will make available \$272,130 to meet the Commission's estimated fund requirements for its operation this year.

For the Department of Justice, the committee recommended, except in one instance, the House allowance, as the Attorney General and his assistants indicated satisfaction with the amounts approved in the various appropriations for the Department. In the appropriation for "Buildings and facilities," the committee approved the additional sum of \$250,000, or about one-half of the sum needed to advance the planning program of a new psychiatric center which will be required in the not too distant future because of the increased number of mental patients now in Federal institutions.

For the judiciary branch, only \$567,000 was added and this sum was for "Salaries and expenses" of referees, because of the huge increase in bankruptcy cases, up 18 percent over a year ago. This expense is not from public funds but from accumulations in the special bankruptcy account.

For the "U.S. Information Agency," the committee recommended that \$4,118,500 be added to the House bill to provide a total appropriation of \$138,901,000 for the six items controlled by the Agency. The Agency had asked the committee to restore \$13,115,500, but the committee felt the net increase of \$4.1 million would be sufficient until the Agency had had an opportunity to re-evaluate and reappraise many of its present programs, to bring about better utilization of personnel, display more initiative and aggressiveness in attacking the evils of communism, and report to the committee its accomplishments.

Included in the increase, is the sum of \$3.5 million for "Salaries and expenses," and of this amount, the sum of \$1.7 million is added in the regular dollar appropriation and \$1.8 million is added in the "Special foreign currency" appropriation. The \$1.8 million is to cover the costs of regular USIA programs in those countries where the United States owns Public Law 480 funds in excess amounts, and which programs were previously funded from the regular dollar appropriation. This transfer merely increases the utilization of excess foreign currencies and saves U.S. dollars.

The committee also allowed an increase of \$1,220,500 in the "Special international program" for trade fairs and trade missions.

An additional \$398,000 for the item "Acquisition and construction of radio facilities" was provided to cover the full cost of \$3,958,000 for an expanded relay station in the United Kingdom.

For the operation of the "Informational media guarantee program," the committee recommended \$1,500,000. Although this was a reduction of \$1 million under the House recommendation, together with funds already in the program, it will still permit the Agency to carry out what the committee believes to be an adequate program this fiscal year. The Director of the Agency, Mr. Edward R. Murrow, is presently undertaking a thorough study to determine the effectiveness of this program, and until that study is completed, the committee felt that the suggested appropriation would be sufficient.

As I previously indicated, the committee was unanimous in its approval of the bill as reported, and, accordingly, I recommend approval of the measure.

Mr. President, I ask unanimous consent that the committee amendments be agreed to en bloc and that the bill as thus amended be regarded for purposes of amendment as original text, provided that no point of order shall be considered to have been waived by reason of agreement to this order.

The ACTING PRESIDENT pro tempore. Is there objection?

Mr. MANSFIELD. Does the Senator yield?

Mr. McCLELLAN. I yield.

Mr. MANSFIELD. Have all committee amendments been agreed to?

The ACTING PRESIDENT pro tempore. No.

Mr. JAVITS. Reserving the right to object—and I reserve the right only so that I may ask the Senator a question, because I know the Senator from Montana wishes the floor immediately. I assume the Senator knows that I will move to restore the items for the USIA. If he does not know that, I now state so to him.

Mr. McCLELLAN. The Senator will move to restore everything, with respect to all items?

Mr. JAVITS. No. I will move to restore what the Agency sought to have restored and which the committee did not restore, with the exception of two items, the foreign currency item of \$1,800,000, which the committee took care of, and also the item with respect to psychiatric examinations, on which I agree with the committee.

I should like to ask the Senator, as a basis for that ultimate motion, which will come, as I understand, according to the preference of the majority leader, after the civil rights matter has been disposed of, what was the reason for giving the Agency \$1,700,000 over and above the amount the House allowed, under the item "Salaries and expenses"? I do not recall the Senator dealing with that in his general statement.

Mr. McCLELLAN. With respect to the dollar appropriations, the agency asked for the restoration of \$8,050,000.

Mr. JAVITS. That is correct.

Mr. McCLELLAN. The committee felt that \$1,700,000 was sufficient to be added

to the House allowance of \$110 million. Some of the factors which we considered, which bore weight with respect to what the committee finally recommended, was that the Agency admitted that in the House allowance there was \$4,800,000 to meet increased program needs, including urgent needs in Africa and Latin America. The House had already allowed a substantial amount for that purpose.

Another reason was that the \$1,800,000 was to enable the transfer of certain expenses to a special foreign security program.

Another was the availability during the fiscal year of at least \$250,000 by reason of the Agency's planned reduction of programs in western Europe.

It was felt that many other programs justified a reevaluation of personnel through realignment and reassigning, so as to increase effectiveness. It was felt that these things should be done before any additional appropriations were made. In other words, there ought to be a further opportunity, before increases in appropriations are made, to ascertain whether additional appropriations are necessary.

The committee, after hearing testimony on the subject, and after discussions with Mr. Murrow, felt that this was the proper course to pursue if we were to be good stewards of the Treasury's resources.

Mr. JAVITS. Would the Senator from Arkansas say that the feeling in the committee was in any way analogous to the sense of urgency which has been demonstrated by Congress with respect to military appropriations lately?

Mr. McCLELLAN. I do not believe there is any doubt that every member of the committee is fully cognizant of the urgency of world affairs today. However, the committee is not of a mind to panic; it is not inclined to yield to pressures for some kind of crash program without a proper evaluation of it.

The committee feels that Congress is in session most of each calendar year, and certainly enough funds are provided in the bill to justify a full year's program of planning for spending. If deficiencies should arise at any time, the practice has always been, and will continue to be, I assume, so long as there is a Congress, that when Congress returns, the agency may ask for more funds. An opportunity will be afforded, not only with respect to this bill, but, I assume, with respect to all appropriation bills, to consider future requests, as the situation may arise, for additional funds.

I do not know whether the Senator from New York agrees with me, but I feel that these amounts ought to be held down, because we can always anticipate additional requests. Simply to grant requests for funds, without any sense of conserving resources, without any thought of trying to effectuate economy or trying to get value received for what is spent, is not a proper approach. I may be wrong, but that is my philosophy. I would not be willing to cut one dime from the bill at any point—whether it be for the Department of State, the Department of Justice, the Judiciary, or

87TH CONGRESS
1ST SESSION

S. 1927

IN THE HOUSE OF REPRESENTATIVES

AUGUST 22, 1961

Referred to the Committee on Agriculture

AN ACT

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That (a) section 12 of the Federal Farm Loan Act, as
4 amended (12 U.S.C. 771), is amended—

5 (1) by substituting “a fixed number of one or more
6 installments each year” for “a fixed number of annual
7 or semiannual installments” in paragraph “Second”
8 thereof; and

9 (2) by substituting in the fourth sentence of para-
10 graph “Sixth” thereof the following for all that comes
11 after “but no such loan shall be made to a corporation”:

“unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration.”.

(b) Section 202 (c) of the Federal Farm Loan Act, as amended (12 U.S.C., supp. II, sec. 1033), is amended by changing the word “five” to the word “seven”.

SEC. 2. The Farm Credit Act of 1933, as amended, is amended—

(1) by adding the following subsection to section 5 thereof (12 U.S.C. 1131i) :

“(f) The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection.”;

(2) by changing section 22 (a) thereof (12 U.S.C. 1131f (a)) to read:

“(a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings for such year in excess of operating expenses (including provision

1 for valuation reserves against loan assets in an amount equal
2 to one-half of 1 per centum of loans outstanding at the end of
3 the fiscal year, to the extent that earnings for the year in
4 excess of other operating expenses permit, until such re-
5 serves equal or exceed $3\frac{1}{2}$ per centum of loans outstanding
6 at the end of the fiscal year beyond which $3\frac{1}{2}$ per centum
7 further additions to such reserves are not required but may
8 be made), first, to the restoration of the impairment, if any,
9 of capital; and, second, to the establishment and mainte-
10 nance of a surplus account, the minimum amount of which
11 shall be prescribed by the Federal intermediate credit bank.”;
12 and

13 (3) by adding the following subsection to section 36
14 thereof (12 U.S.C. 1134l) :

15 “(d) Notwithstanding any other provision of this Act,
16 in the case of liquidation or dissolution of any present or
17 former borrower from a bank for cooperatives, the bank,
18 may, in accordance with rules and regulations prescribed by
19 the Farm Credit Administration, retire and cancel any capi-
20 tal stock or allocated surplus and contingency reserves or
21 other equity interest, in the bank owned by such borrower
22 at the fair book value thereof, not exceeding par, and, to
23 the extent required, corresponding shares and allocations

1 or other equity interests held by the regional bank in the
2 central bank shall be retired.”.

Passed the Senate August 21, 1961.

Attest:

FELTON M. JOHNSTON,

Secretary.

AN ACT

To amend further the Federal Farm Loan Act
and the Farm Credit Act of 1933, as
amended, and for other purposes.

AUGUST 22, 1961

Referred to the Committee on Agriculture

which the food resources of this Nation are being used in order to strengthen American foreign policy, help underdeveloped countries, and relieve human suffering." pp. 15931-2

10. FOREIGN AID. Sen. Sparkman inserted an article by the chairman of the Foreign Policy Clearing House, "Foreign Aid Fallacies and Facts." pp. 16029-30
 11. VETERANS' BENEFITS. As reported (see Digest 137), S. 349, the proposed Veterans' Readjustment Assistance Act of 1961, includes provisions as follows.
 Provides educational or vocational training assistance, including on-the-job and institutional on-farm training pursued on a full-time basis, to veterans who have served on active duty between Jan. 31, 1955, and July 1, 1963, for a period of more than 180 days, and have been discharged under conditions other than dishonorable. Benefits would be determined by multiplying $1\frac{1}{2}$ times each day of active military service up to a maximum of 36 months.
 Provides that veterans who have served on active duty between Jan. 31, 1955, and July 1, 1963, for a period of more than 180 days, and have been discharged under conditions other than dishonorable, shall be eligible for VA guarantee loans and direct loans for the purpose of purchasing homes, including homes on farms, and farmlands, livestock, machinery, etc., to be used in farming operation conducted by the veteran. Loans would be made by banks or other lending institutions with the Government guaranteeing 60 percent of a loan for residential real estate, or 50 percent of other real estate loans, with guaranty not to exceed \$7,500 for real estate home loans or \$4,000 for other real estate loans. Loans on farm realty would have maturities up to 40 years. In certain rural areas, the VA is now authorized to lend up to \$15,000 directly to the veteran when private capital is not available for a guaranty loan.
 Provides for vocational rehabilitation training for veterans with a service-connected disability of 10 percent or more arising from active military service either between the end of World War II (July 25, 1947) and the beginning of the Korean conflict (June 27, 1950), or subsequent to the end of the Korean conflict (Jan. 31, 1955).
 12. LEGISLATIVE PROGRAM. Sen. Mansfield announced that the following bills have been scheduled for consideration this week: S. 174, the wilderness preservation bill; H. R. 2010, the Mexican farm labor bill; H. R. 7391, conservation of migratory waterfowl; S. 543, preservation of shoreline areas; and H. R. 2883, defense of suits against Federal employees arising from their operation of motor vehicles in the scope of their employment. pp. 16033, 15997-8
 13. ADJOURNED until Mon., Aug. 28. p. 16034
- HOUSE
14. CONSERVATION. The Subcommittee on Conservation and Credit of the Agriculture Committee voted to report to the full committee with amendments H. R. 8520, to limit financial and technical assistance for drainage of certain wetlands when such drainage will be harmful to wildlife. p. D769
 15. FARMS LOANS. The Subcommittee on Conservation and Credit of the Agriculture Committee voted to report to the full committee S. 1927, to make a number of amendments to simplify and clarify the operations of institutions supervised by FCA. p. D769
 16. FARM MORTGAGE CORPORATION. The Subcommittee on Conservation and Credit of the Agriculture Committee voted to report to the full committee S. 1040, to abolish the Federal Farm Mortgage Corporation. p. D769

ITEMS IN APPENDIX

17. SEASHORES. Extension of remarks of Sen. Yarborough discussing his bill S. 4, to provide for the establishment of the Padre Island National Seashore, and inserting an article, "Tolbert: The Poop on Padre Island." pp. A6697-8
18. EXPORTS. Extension of remarks of Rep. Pelly supporting H. Res. 403, to create a select committee to conduct an investigation of the administration, operation, and enforcement of the Export Control Act of 1949, and saying, "I am at loss to understand why the administration is allowing the export from the United States of materials that seem to me to be of great strategic military value to the Sino-Soviet bloc." p. A6698
19. WILDLIFE. Extension of remarks of Sen. Wiley inserting an article, "Wisconsin's Outdoor Laboratories--Preservation of Our Scientific Areas Is Vital to Human Welfare--They Include Virgin Landscape in Which Rattlesnakes Are as Welcome as Songbirds." pp. A6700-1

BILLS INTRODUCED

20. HONEY. S. 2472, by Sen. McCarthy (for himself and Sen. Humphrey), to authorize marketing agreements and orders under section 8c of the Agricultural Adjustment Act (as reenacted by the Agricultural Marketing Act of 1937), as amended, with respect to honey; to the Agriculture and Forestry Committee. Remarks of Sen. McCarthy. p. 15927-8
21. INDUSTRIAL AGENTS. S. 2467, by Sen. Humphrey, to improve commerce and industrial development through the establishment of a county industrial agent program; to the Commerce Committee.
22. PERSONNEL. S. 2468, by Sen. Johnston, to increase annuities under the Civil Service Retirement Act; to the Post Office and Civil Service Committee.

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COMMITTEE HEARINGS ANNOUNCEMENTS:

Aug. 28: Foreign aid authorization bill, conferees (exec).
Foreign aid appropriations, S. Appropriations (exec).

o0o

the general education bill on Thurs., and the Mexican farm labor bill on Fri. He stated that Congress might be able to adjourn sine die "by the 14th or 15th of September, but my guess would be we will finish closer to the 1st of October". pp. 16378-9

HOUSE

15. **FOREIGN AID.** Received the conference report on S. 1983, the foreign aid authorization bill (H. Rept. 1088) (pp. 16510-32). As reported by the conferees, this bill includes the following provisions:

Establishes a development loan fund for use in making loans to underdeveloped nations and authorizes the appropriation of \$1.2 billion in fiscal year 1962 and up to \$1.5 billion in each of the next 4 fiscal years for this new development loan program.

Authorizes \$380 million for fiscal year 1962 for development grants and technical cooperation for aiding underdeveloped nations.

Exempts from the 50-50 cargo preference shipping requirements (for shipments on U. S. Flag vessels) the transportation between foreign countries of goods purchased with foreign currencies acquired under this bill or under Public Law 480 and exempts the shipment of fresh fruits and their products under this bill.

Prohibits use of funds authorized by the bill for the purchase of bulk commodities at prices higher than the prevailing market price in the U. S., adjusted for differences in transportation costs, quality, and terms of payment.

Requires that insofar as practicable surplus agricultural commodities to be furnished on a grant basis must be bought only in the U. S. except to the extent that they are not available here in sufficient quantities to meet emergency conditions.

Provides that, with respect to development loans, development grants and supporting assistance, funds in excess of \$100,000 cannot be obligated until engineering, financial, and other plans necessary to carry out the project have been completed and there is a reasonably firm estimate of the cost of the project to the U. S., and, in the case of water or related land resource construction project, plans must include a computation of benefits and costs made insofar as practicable in accordance with Budget Bureau procedures for such projects in the U. S.

Provides that the Secretary of the Treasury shall have responsibility for accounting and valuation with respect to foreign credits and foreign currencies owed to or owned by the U. S. and, in carrying out this responsibility, the Secretary shall issue regulations binding upon all agencies of the Government. Gives the Secretary sole authority to establish the exchange rates at which all foreign currencies or credits are to be used by all Government agencies. Requires each Government agency to report to the Secretary of the Treasury an inventory as of June 30, 1961, showing all foreign currencies on hand, and similar reports semiannually thereafter, for use of the Secretary in preparing consolidated reports to Congress.

Includes administrative provisions for carrying out the provisions of the bill, and provides for the repeal of the provisions of the Mutual Security Act of 1954, as amended, except for certain specified sections.

16. **EDUCATION.** By a vote of 170 to 242, the House refused to consider H. R. 8890, to amend Public Law 815 and Public Law 874, 81st Congress, so as to extend provisions for Federal assistance for schools in federally impacted areas an additional year, and to extend for 1 year the student loan program of title II of the National Defense Education Act of 1958. pp. 16452-3

Reps. Hiestand, Seely-Brown, Mathias, and Lindsay condemned present consideration of this bill. pp. 16508, 16509-10

17. WATERSHEDS. The Public Works Committee reported with amendments H. R. 3801, to authorize the Secretary of the Army and the Secretary of Agriculture to make joint investigations and surveys of watershed areas for flood prevention or the conservation, development, utilization, and disposal of water, and for flood control and allied purposes, and to prepare joint reports on such investigations and surveys for submission to the Congress (H. Rept. 1083). p. 16534
The Agriculture Committee approved two watershed projects--Big Reedy Creek, Ky.; and Cane Creek, Tenn. p. D787
18. FARM CREDIT. The Agriculture Committee voted to report (but did not actually report) S. 1927, to make a number of amendments to simplify and clarify the operations of institutions supervised by FCA, ~~and (with amendments) S. 1040, to abolish the Federal Farm Mortgage Corporation.~~ p. D787
19. LANDS. The Agriculture Committee voted to report (but did not actually report) S. 302, to authorize the appropriation of an additional \$2 million for the purchase of land within the boundaries of the Superior National Forest, Minn.; H. R. 4934, to authorize the Secretary of Agriculture to modify certain leases entered into for the provision of recreation facilities in reservoir areas; and (with amendments) H. R. 8520, to limit financial and technical assistance for drainage of certain wet lands. p. D787
20. WHEAT. The Agriculture Committee voted to report (but did not actually report) with amendments S. 1107, to exempt the production of durum wheat in portions of Modoc and Siskiyou Counties, Calif. (Tulelake area), from acreage allotments and marketing quota restrictions. p. D787
21. POULTRY. The Agriculture Committee voted to report (but did not actually report) H. R. 7866, to amend the Poultry Products Inspection Act to extend the application thereof to the Commonwealth of Puerto Rico. p. D787
22. GENERAL SUPPLY FUND. The Subcommittee on Government Activities of the Government Operations Committee voted to report to the full committee H. R. 8099, to remove the limitation on the maximum capital of the General Supply Fund." p. D787
23. PERSONNEL. Received from Interior a proposed bill "to amend section 7 of the Administrative Expenses Act of 1946, as amended, relating to travel expenses of civilian officers and employees assigned to duty posts outside the continental United States." p. 16533
The Armed Service Committee reported with amendments H. R. 8765, to amend and clarify the reemployment provisions of the Universal Military Training and Service Act (H. Rept. 1082). p. 16534
24. FOREIGN TRADE. Rep. Mathias inserted a letter from the Commerce Department regarding the sales of American surplus farm commodities to Communist nations. pp. 16508-9
Received from the Attorney General a draft of a proposed bill "to amend the Trading With the Enemy Act, as amended." p. 16533
The Ways and Means Committee voted to report (but did not actually report) with amendments H. R. 7692, to require certain new packages of imported articles to be marked to indicate the country of origin. p. D788
25. VIRGIN ISLANDS. Received from the Comptroller General a report on the review of certain activities of the Government of the Virgin Islands for the fiscal year 1960. p. 16533

By Rep. Yates, 131 to 144, to increase the funds for development grants from \$259 million to \$350 million. pp. 17027-30

By Rep. Jones, Mo., to provide that U. S. contributions to any international organization shall not exceed 50 percent of the total amount of contributions to such organization or program. pp. 17030-5

On a point of order by Rep. Hiestand, Title V appropriating \$20,000,000 for the Peace Corps was struck from the bill. p. 17040

8. WHEAT. The Agriculture Committee reported with amendments S. 1107, to exempt the production of durum wheat in portions of Modoc and Siskiyou Counties, Calif. (Tulelake area), from acreage allotments and marketing quota restriction. (H. Rept. 1111). p. 17064

9. FORESTRY. The Agriculture Committee reported without amendment S. 302, to authorize the appropriation of an additional \$2 million for the purchase of land within the boundaries of the Superior National Forest, Minn. (H. Rept. 1109). p. 17064

10. FEED GRAINS. Rep. Albert defended the feed grains program against recent criticism by Rep. Arends, saying, "it is apparent that had there been no program, feed grain prices today would be much lower than they are." pp. 17047-8

11. FARM CREDIT. The Agriculture Committee reported without amendment S. 1927, to make a number of amendments to simplify and clarify the operations of institutions supervised by FCA (H. Rept. 1112), and with amendment S. 1040, to abolish the Federal Farm Mortgage Corporation (H. Rept. 1110). p. 17064

12. PEACE CORPS. The Foreign Affairs Committee reported with amendments H. R. 7500, to provide for a Peace Corps to help the peoples of underdeveloped countries and areas in meeting their needs for skilled manpower (H. Rept. 1115). p. 17064

13. WATER COMPACTS. The Interior and Insular Affairs Committee reported with amendment H. R. 7855, granting the consent of Congress to an amendment to a compact ratified by the States of Louisiana and Texas relating to the waters of the Sabine River (H. Rept. 1113). p. 17064

14. PERSONNEL. Received from the Budget Bureau a proposed bill "to amend section 15 of the Administrative Expenses Act of 1946; to provide for regulation by the President of the employment of experts or consultants or organizations thereof;" to Government Operations Committee. p. 17064

15. WATERSHEDS. The "Daily Digest" states that the Subcommittee on Conservation and Credit of the Agriculture Committee approved the following watershed projects for full committee action: East Fork of Pond River, Ky.; Souhegan River, Mass. and N. H.; Ahoskie Creek, N. C.; Davids Creek, Iowa; Davis-Battle Creek, Iowa; Ryan Henschal, Iowa; Cane Creek, Okla.; Dunlap Creek, Pa.; Little Saltilla, Ga.; Tallahalla Creek, Miss.; Sarasota west coast, Florida; and Kickapoo Creek, Wis. pp. D807-8

16. FOREIGN RELATIONS. Received from the Secretary of State a report of gifts and bequests received and accepted by the U. S. National Commission for the United Nations Educational, Scientific, and Cultural Organization. p. 17064

ITEMS IN APPENDIX

17. FARMER-RETAILER. Extension of remarks of Sen. Keating inserting an article outlining an example of cooperation between the men who grow our food and those who sell it. p. A6951
18. TRANSPORTATION. Extension of remarks of Sen. Hartke stating that "our Nation's transportation system is in vital need of a major revamping," and inserting an article, "Commerce Secretary Hodges Ready To Tackle Study of Nation's Transport Problems." pp. A6954-5
19. PERSONNEL; FAS. Extension of remarks of Rep. Horan inserting an article paying tribute to "Doc" Motz and stating that "Perhaps more than any other, Fred Motz was responsible for the rebirth and revitalization of our Foreign Agricultural Service in 1954." pp. A6957-8
20. FOREIGN AID. Speech in the House by Rep. Dooley urging that reductions in foreign aid appropriations be restored. pp. A6962-3
Speech in the House by Rep. Friedel in support of the conference report on the foreign aid authorization bill. p. A6973
21. FISH FLOUR. Extension of remarks of Rep. Keith inserting an article, "High-Protein Fish Flour From New Bedford Plant Is New Food For The World's Poor." pp. A6964-5
22. ELECTRIFICATION. Extension of remarks of Rep. Michel inserting a copy of a resolution from the Upper Colorado River Commission endorsing the proposal of the utility companies for transmitting power from the Colorado River storage project. pp. A6984-5

BILLS INTRODUCED

23. FOREIGN TRADE. H. R. 9036, by Rep. Derwinski, to prohibit exports to Communist countries; to Interstate and Foreign Commerce Committee.
24. VETERANS' BENEFITS. H. R. 9038, by Rep. Flood, to amend title 38, United States Code, to provide vocational rehabilitation education and training and loan guarantee benefits for veterans of service after January 31, 1955; to Veterans' Affairs Committee.
25. CREDIT. H. R. 9040, by Rep. Ryan, to assist in the promotion of economic stabilization by requiring the disclosure of finance charges in connection with extensions of credit; to Banking and Currency Committee.
26. TRANSPORTATION. H. R. 9046, by Rep. Harris, to permit the application of the bulk commodity exemption when other commodities are concurrently transported in the same vessel; to Interstate and Foreign Commerce Committee.
27. INSECT CONTROL. H. R. 9047, by Rep. Berry, to amend the act of April 6, 1937, as amended, to provide for the effective control of grasshoppers and other insect pests on land idled under the conservation reserve program; to Agriculture Committee.
28. WOOL. H. R. 9049, by Rep. Fisher, to provide for the regulation by the Secretary of Agriculture of persons engaged in the business of core sampling and testing of wool; to Agriculture Committee.

AMENDMENTS TO FARM CREDIT LAWS

SEPTEMBER 5, 1961.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. COOLEY, from the Committee on Agriculture, submitted the following

R E P O R T

[To accompany S. 1927]

The Committee on Agriculture, to whom was referred the bill (S. 1927) to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes, having considered the same, report favorably thereon without amendment, and recommend that the bill do pass.

PURPOSE

The purpose of this bill is to make certain amendments to the laws pertaining to the Farm Credit Administration so as to make its operations more useful to farmers and to make changes in the supervisory provisions of law relating to production credit associations.

NEED FOR THE LEGISLATION

The need for the legislation is set out in some detail in the executive communication of May 11, 1961, from the Farm Credit Administration to the Speaker of the House and the President of the Senate, which is reproduced in full in the Senate report on S. 1927, which is appended hereto and made a part of this report.

COST

There would be no additional cost to the Federal Government as a result of enactment of this legislation.

DEPARTMENTAL VIEWS

The Department of Agriculture and the Farm Credit Administration recommend the enactment of this legislation in its original form. The Treasury Department questioned a provision of the bill which would have changed the regulatory and supervisory provisions relating to production credit associations to require such associations to accumulate reserves for bad debts at the rate of one-half of 1 percent per year on outstanding loans until a total of 5 percent had been reached. The Senate amended the bill to set the total required amount for bad debt reserves at 3½ percent of outstanding loans and it is believed by the committee that this amendment substantially meets the objections of the Treasury Department.

SENATE REPORT

[S. Rept. 747, 87th Cong., 1st sess.]

The Committee on Agriculture and Forestry, to whom was referred the bill (S. 1927) to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes, having considered the same, report thereon with a recommendation that it do pass with amendments.

HEARINGS

Hearings were conducted on June 6, 9, and 14 by the Subcommittee on Agricultural Credit and Rural Electrification.

SHORT EXPLANATION OF BILL

S. 1927 makes several technical changes in the laws relating to the cooperative credit system regulated by the Farm Credit Administration. With the committee amendments, the bill would—

(1) Permit installment payments on Federal land bank loans to be scheduled more frequently than semiannually;

(2) Permit Federal land bank loans to be made to a farming corporation if owners of its stock assume personal liability to the extent prescribed by the Farm Credit Administration (instead of the present requirements that owners of 75 percent of the stock are farming the farm and owners of a like amount assume personal liability);

(3) Increase the maximum maturity for loans or discounts by the Federal intermediate credit banks to 7 years (from 5);

(4) Combine the revolving funds available for subscription to stock of production credit associations and Federal intermediate credit banks;

(5) Require each production credit association to set aside each year earnings equal to $\frac{1}{2}$ percent of its outstanding loans for a bad debt reserve until such reserve equals $3\frac{1}{2}$ percent of outstanding loans, after which increases in the reserve are permitted but not required;

(6) Permit retirement of interests in any bank for cooperatives held by a cooperative which is liquidated or dissolved.

COMMITTEE AMENDMENTS

First, in lieu of requiring a bad debt reserve to be accumulated by each production credit association until it reaches 5 percent of outstanding loans, and limiting it to that amount; the committee recommends that the bad debt reserve be required to be accumulated until it reaches $3\frac{1}{2}$ percent of outstanding loans, and thereafter be permitted to be accumulated as may appear necessary. It is intended that the bad debt reserve of $3\frac{1}{2}$ percent required by the bill will be deemed reasonable for the purpose of deductions under section 166(c) of the Internal Revenue Code of 1954, and that the reasonableness of any additions above $3\frac{1}{2}$ percent would be determined administratively in each case by the Internal Revenue Service. Since 1945, the first year for which any production credit association was required to file an income tax return, the Internal Revenue Service has questioned the reasonableness of the reserves of production credit associations, disallowing deductions, and requiring the associations to pay taxes under protest and sue to recover the overpayment. Twenty-three such suits have been filed. In 17 the associations' claims was allowed in full. In three cases a substantial part of their claims were allowed, and in three cases the claims were not allowed. It is quite apparent that no association can at present set up a reasonable reserve, except at its peril; and this question should be set to rest, at least insofar as reserves not exceeding $3\frac{1}{2}$ percent are concerned. The courts have approved reserves as high as 4.76, 4.65, 4.49, 4.33, 4.15, 4.09, 3.88, and 3.76 percent, so that $3\frac{1}{2}$ percent is manifestly reasonable. With respect to reserves above $3\frac{1}{2}$ percent, the question of reasonableness would be left to determination on an individual case basis.

Second, the committee recommends striking sections 2(3) and 2(4) of the bill, which would permit the banks for cooperatives to make loans to a cooperative if 75 percent of its voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such bank. At present the law is construed to require 90 percent of the cooperatives' voting rights to be held by producers or other eligible cooperatives before the cooperatives can be eligible for a loan. The committee felt that the banks for cooperatives were established to care for the borrowing needs of farmer cooperatives as described in the Agricultural Marketing Act, as that act has been long understood; and that it would not be wise to extend their authority in this manner, but might result in greater friction with commercial lending institutions.

GENERAL STATEMENT

As reported by the committee, the bill consists of six amendments to the Federal Farm Loan Act and the Farm Credit Act of 1933 to improve the lending service and other operations of the cooperative system of associations and banks which are regulated by the Farm Credit Administration. There are two amendments which concern the Federal land banks, three which concern the Federal intermediate credit banks and production credit associations, and one which concerns the banks for cooperatives. Before explaining the provisions of the bill in detail, background information as to the banks and associations concerned and as to the Farm Credit Administration, which has their supervision, will be given.

BACKGROUND—COOPERATIVE FARM CREDIT SYSTEM

The United States is divided into 12 farm credit districts consisting of from one to eight States. There are in each district a Federal land bank, from 35 to 110 Federal land bank associations, a Federal intermediate credit bank, from 26 to 80 production credit associations, and a bank for cooperatives. In each district, the Federal land bank makes long-term land mortgage loans to farmers through the land bank associations; the production credit associations make short- and intermediate-term loans to farmers and ranchers with funds obtained by rediscounting the loans with the Federal intermediate credit bank which also discounts agricultural loans made by other financing institutions; and the bank for cooperatives makes loans to cooperative associations which are engaged in marketing, purchasing farm supplies, or rendering farm business services.

Each district has a farm credit board which also serves as the board of directors of each of the three banks. Each district board consists of seven members, two elected by the Federal land bank associations, two elected by the production credit associations, one elected by the stockholders of the bank for cooperatives, and two appointed by the Governor of the Farm Credit Administration with the concurrence of the Federal Farm Credit Board. (The Government capital in the bank for cooperatives in six of the districts has been retired to a point which entitles the stockholders of the bank to elect a second member of the district board, leaving only one to be appointed by the Governor in those six districts, effective with 1962.) Each land bank association and production credit association has its own board of directors which is elected by the members who obtained loans through or from the association. There is a Central Bank for Cooperatives located in the District of Columbia, which has a separate board of directors.

The activities of these 37 banks and about 1,280 local associations are subject to supervision, examination, and coordination by the Farm Credit Administration which is an independent agency in the executive branch of the U.S. Government. The agency consists of the Federal Farm Credit Board, the Governor, and other officers and employees.

The Federal Farm Credit Board is a part-time, policymaking Board which consists of 13 members, 12 of whom are appointed by the President with the advice and consent of the Senate. In making

the appointments, one from each of the farm credit districts, the President is required to receive and consider nominations by the three user groups in each district (i.e., the Federal land bank associations, the production credit associations, and the stockholders of the bank for cooperatives). The 13th member of the Board is designated by the Secretary of Agriculture as his representative on the Board.

Under the general supervision and direction of the Federal Farm Credit Board, the Governor is responsible for the execution of the laws creating the powers, functions, and duties of the Farm Credit Administration. Expenses of the Farm Credit Administration are not paid from Treasury funds but are paid through assessments against the banks and associations of the system.

BACKGROUND—FEDERAL LAND BANKS

Established in 1917 to make long-term land mortgage loans to farmers, the Federal land banks were originally capitalized by the U.S. Government, which also provided additional capital during the 1930's, but the last of such Government capital was retired in 1947. Each borrower from a Federal land bank is required to become a member of the Federal land bank association through which his loan is made. The borrower buys capital stock of the association in an amount equal to 5 percent of the face amount of the loan and the association is required to purchase an equal amount of stock in the Federal land bank of the district. By this means all the capital stock of the 791 Federal land bank associations is owned by their farmer-members and the associations in turn have owned all of the stock of the Federal land banks since 1947. On December 31, 1960, the combined net worth of all Federal land banks and Federal land bank associations were approximately \$520 million. The loan funds of the Federal land banks are obtained primarily through the sale of consolidated bonds to the investing public.

A Federal land bank loan must be secured by a first mortgage on the farm or ranch of the borrower. The amount loaned in any case may not exceed 65 percent of the appraised normal value of the farm or ranch offered as security, plus the amount of the stock required to be purchased (5 percent of the face amount of the loan). Since the banks obtain their loan funds chiefly through the sale of consolidated bonds to the investing public, interest on loans made to farmers varies with the cost of money and differences in administrative cost. At the present time, two of the banks are making loans at 6 percent, one at $5\frac{3}{4}$ percent, and nine charge an interest rate of $5\frac{1}{2}$ percent. A land bank loan may not be made for more than 40 years but most of them have maturities of 20 to 35 years. Presently there are some 380,000 land bank loans outstanding in the approximate amount of \$2.7 billion.

BACKGROUND—FEDERAL INTERMEDIATE CREDIT BANKS AND PRODUCTION CREDIT ASSOCIATIONS

The Federal intermediate credit banks were established in 1923 but it was not until 1933 that the production credit associations were

authorized by Congress. The associations make short- and intermediate-term loans to farmers and ranches. To obtain funds with which to do so, the associations rediscount their loans with, or borrow from, the Federal intermediate credit bank of the district. The Federal intermediate credit banks also lend to and discount agricultural loans for other financing institutions, principally State-chartered, privately capitalized agricultural credit corporations and livestock loan companies, but over 90 percent of the business of the credit banks is with the production credit associations.

The Federal intermediate credit banks were originally capitalized by the U.S. Government but, pursuant to changes made by the Farm Credit Act of 1956, the credit banks are now being converted from Government to private ownership and eventually their capital stock will be owned entirely by the production credit associations. As required under the 1956 act, the production credit associations purchased stock in the banks equal to 15 percent of the stock of the banks owned by the Government as of January 1, 1957, and the proceeds (\$13,112,015) were used to retire a corresponding amount of Government stock. Some Government stock (\$453,865) also has been retired out of earnings of the banks. As a result of these two types of retirements, the sum of \$13,565,880 was paid into the Treasury as miscellaneous receipts. However, an even greater amount of stock in the banks has had to be purchased by the Government out of the revolving fund available for that purpose in order to enable the banks to meet the credit needs of farmers and stockmen in their districts. Further retirements of Government stock are to be made out of earnings as the capital needs of the banks permit and the associations will acquire further stock in the banks as patronage refunds.

As of December 31, 1960, the capital stock of the Federal intermediate credit banks owned by the Government totaled \$93.2 million; the capital stock of the banks owned by the production credit associations totaled \$23.6 million; participation certificates owned by other financing institutions amounted to \$841,000; and such amounts, together with accumulated earnings of \$74.6 million, gave the intermediate credit banks a combined net worth of \$192.2 million. The loan funds of the intermediate credit banks are obtained chiefly through the sale of consolidated debentures to the investing public so that the interest and discount rates which the banks charge depend upon the rates of interest which the banks have to pay on their debentures.

Initially the production credit associations, of which there now are 488, were almost entirely capitalized by the Government. This capital was gradually retired as farmers purchased substantial amounts of stock in the associations. Each borrower from a production credit association is required to own class B (voting) stock in the association in an amount equal to 5 percent of the amount of the loan. Two years after the holder ceases to be a borrower, class B stock is converted into class A stock and many farmers have also voluntarily invested in class A stock of the associations. As of December 31, 1960, the Government held capital stock in only 20 of the production credit associations, for a total of \$900,000; the member-owned stock of all of the associations amounted to \$175.1 million;

and such amounts, together with accumulated earnings of \$126 million, made the combined net worth of all the production credit associations \$302 million.

Loans by the production credit associations are usually on a budget basis for periods up to 1 year. Some loans for capital purposes are made for intermediate terms up to 5 years. The loans are usually secured by chattel mortgages on crops, livestock, and machinery, but unsecured loans are made in appropriate cases. Since the associations obtain their loan funds by rediscounting farmers' notes with the Federal intermediate credit banks, interest rates are determined largely by the cost of money to those banks. At the present time the interest rates charged by the associations vary but the most prevalent rate is 6 percent.

BACKGROUND—BANKS FOR COOPERATIVES

The banks for cooperatives were organized under the Farm Credit Act of 1933. They make loans to farmers' marketing, purchasing, and service cooperatives. Three distinct types of loans are made: commodity, operating capital, and facility loans. Since the loan funds of the banks for cooperatives, other than those available from their capital and surplus, are obtained from the sale of consolidated debentures to the investing public, interest rates charged by the banks for cooperatives depend, to a large extent, upon the rates they have to pay on their debentures. Interest rates vary with the type and term of loan and between banks. At the present time, interest rates charged by the banks for cooperative range from a low of 4 percent to a high of $5\frac{1}{2}$ percent.

The banks for cooperatives were capitalized by the United States out of the revolving fund from which the Federal Farm Board previously made loans to cooperatives under the Agricultural Marketing Act of 1929. Since the Farm Credit Act of 1955, the Government capital in the banks for cooperatives is being systematically retired by the creation of permanent capital contributed by the users of the banks.

Effective since January 1, 1956, borrowers from the banks for cooperatives are required to purchase class C (voting) stock in the banks in an amount related to the quarterly interest payments on their loans (from 10 to 25 percent as determined by the bank with the approval of the Farm Credit Administration). Also, the net earnings of the banks, after reserves, franchise taxes, and certain dividends are provided for, are required to be distributed in class C stock to the borrowing cooperatives. Class A (Government-owned) stock of the banks is required to be retired each year in an amount equal to the amount of class C stock issued for that year. Thus, funds from regular investments in class C stock by the borrowers and from net earnings of the banks are being used to retire Government capital. In this manner, some \$32 million of Government capital has been retired since 1955.

As of December 31, 1960, the capital stock of the banks for cooperatives owned by the Government totaled \$118 million; the capital stock of the banks owned by borrowers and others totaled \$48 million; and such amounts, together with accumulated earnings of \$104 million, gave the banks for cooperatives a combined net worth of \$270 million.

EXPLANATION OF BILL (WITH COMMITTEE AMENDMENT)

AMENDMENTS TO FEDERAL FARM LOAN ACT

Section 1(a)(1): *To permit amortization plan for Federal land bank loans to provide for installments more frequently than semiannually.* The long-term farm mortgage loans made by the Federal land banks are usually repayable by means of annual or semiannual installments which include not only interest but also such amounts to be applied on principal as will extinguish the debt within the agreed term of the loan which usually is 20 to 35 years and may not exceed 40 years. Under existing law (12 U.S.C., Supp. II, 771 Second), the amortization plan may not require such repayments more frequently than semiannually. The purpose of section 1(a)(1) of the bill is to permit the amortization plan for Federal land bank loans to provide for installments more frequently than semiannually. This would be accomplished by substituting "a fixed number of one or more installments each year" for "a fixed number of annual or semiannual installments" in section 12 Second of the Federal Farm Loan Act, as amended (12 U.S.C., Supp. II, 771 Second). While it is expected that most land bank loans would continue to be made on an annual or a semiannual installment plan, it is deemed desirable to permit repayments more frequently than semiannually where there is more in line with the borrower's income pattern.

Section 1(a)(2): *To amend eligibility requirements for Federal land bank loans to farming corporations.* The basic eligibility requirement for a Federal land bank loan is found in section 12 Sixth of the Federal Farm Loan Act, as amended (12 U.S.C. 771 Sixth):

No such loan shall be made to any person who is not at the time, or shortly to become, engaged in farming operations or to any other person unless the principal part of his income is derived from farming operations.

As so used, the term "person" is defined in the law to include "a corporation engaged in farming operations." However, in the case of a corporation, the existing law further specifies, in effect, that no loan shall be made (a) unless at least 75 percent in value and number of shares of the stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan, and (b) unless the owners of a like amount of stock assume personal liability for the loan.

That the present requirements are overly restrictive appears to be demonstrated by the fact that in 1960 only 117 out of a total of 43,404 land bank loans were made to corporations. For requirements (a) and (b) noted above, the bill would substitute that, in order for a corporation to be eligible for a loan, the principal part of its income must be derived from farming operations and owners of stock in the corporation must assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration. This would afford more flexibility and permit loans to corporations with fewer stockholders assuming personal liability than is now required; but it is expected that full personal liability will always be required of at least one or more of the responsible stockholders.

The corporate method of organization is increasingly being used by families as a means of facilitating the transfer of the farm, and allocating interest among family members, and as a means of avoiding the necessity of liquidating the farm at the time of death of the parents. Where only one of several family members holding equal amounts of stock remains on the farm, the Federal land bank cannot now make a loan to the corporation. The purpose of this section is to provide for situations of the type just described and not to provide for loans to corporations formed by unrelated investors, none of whom participate in the farming operations.

Section 1 (b): *To increase from 5 to 7 years the maximum maturity permitted for loans, advances, or discounts by a Federal intermediate credit bank.* The Federal intermediate credit banks make loans to, and discount agricultural paper for, the production credit associations and other financing institutions which make loans to farmers and ranchers. Under section 202(c) of the Federal Farm Loan Act, as amended (12 U.S.C. 1033), the loans made or discounted by a Federal intermediate credit bank may not have a maturity of more than 5 years from the date made or discounted by the bank. To be eligible for discount at a Federal intermediate credit bank, therefore, the loans made to farmers and ranchers by the production credit associations and other financing institutions may not have a maturity of more than 5 years at the time of such discount. Section 1(b) would increase the permissible maturity from 5 to 7 years. It is to be expected that most intermediate-term loans discounted by the credit banks will continue to fall within the 2- to 5-year range. In individual cases, though, a 6- or 7-year maturity may be needed to liquidate obligations incurred for capital purposes.

AMENDMENTS TO FARM CREDIT ACT OF 1933

Section 2(1): *To combine the Federal intermediate credit bank and production credit association revolving funds into a single fund available for the same purposes.* There now are two revolving funds which were established as provided for in section 5 of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131i). Under subsection (a) thereof, there is a revolving fund of \$60 million which is available for subscriptions to the capital stock of production credit associations (12 U.S.C. 1131c, 1131e-1(a)). Under subsection (e) thereof, there is authorized a revolving fund of \$70 million of which \$40 million is now available for subscriptions to the capital stock of the Federal intermediate credit banks (12 U.S.C. 1061(a)(1)).

The Government now holds capital stock in only 20 of the 488 production credit associations and it is apparent that not all of the fund available for capitalizing production credit associations will be needed by such associations. On the other hand, the Federal intermediate credit banks are expected to require larger capital stock subscriptions than could be made from the separate fund now available to them. Under the law, the debentures and similar obligations issued for a Federal intermediate credit bank and other borrowings may not exceed 10 times the surplus and paid-in capital of the bank (12 U.S.C. 1041). Since the funds with which a credit bank makes loans and discounts are obtained through the sale of debentures and

other borrowings, it follows that as its business increases and more debentures are issued, the paid-in capital of the bank must be increased in order to stay within the statutory maximum ratio of 10 to 1.

At the time of the enactment of the Farm Credit Act of 1956, it was recognized that it might become advisable to make some of the production credit association revolving fund available for the purposes of the Federal intermediate credit bank revolving fund. Section 2(1) of the bill would do this by combining the two funds into a single revolving fund, all of which then would be available for investment in capital stock of production credit associations and Federal intermediate credit banks on the same terms as now.

Section 2(2): *To prescribe amount of reserves for bad debts to be established by production credit associations.* The production credit associations are organized and operate under the terms of the Farm Credit Act of 1933, as amended, to make loans to farmers and ranchers. They are chartered and regulated by the Farm Credit Administration and also are under the more local supervision of the Federal intermediate credit bank in each district. Section 22(a) of the Farm Credit Act of 1933, as amended (12 U.S.C. 1131f(a)), now directs how a production credit association shall apply its earnings in excess of operating expenses at the end of each fiscal year, but it makes no more specific provision for a reserve for bad debts than that "provision for reasonable valuation reserves" shall be included as an operating expense.

Section 2(2) of the bill would amend the existing law so that each production credit association would be required, in applying its earnings at the end of each fiscal year, to include as an operating expense provision for valuation reserves against loan assets in an amount equal to one-half of 1 percent of loans outstanding at the end of the fiscal year. This would be required to the extent that earnings for the year in excess of other operating expenses permit. As introduced, the bill would have provided that no additions are to be made to the valuation reserves which would increase such reserves above 5 percent of loans outstanding at the end of the fiscal year. As amended by the committee, annual additions are required to be made to such bad debt reserves until they equal or exceed $3\frac{1}{2}$ percent of loans outstanding at the end of the fiscal year. Beyond such $3\frac{1}{2}$ percent further additions to such reserves are not required but may be made. This is designed to provide for bad debt reserves in an amount which will be adequate for the sound operation of an association. It also is intended and assumed that the additions to bad debt reserves which a production credit association is required to make under the Farm Credit Act of 1933, as so amended, i.e., up to $3\frac{1}{2}$ percent of outstanding loans, would be accepted as reasonable for Federal income tax purposes. Any voluntary additions beyond such $3\frac{1}{2}$ percent, though, would continue to be subject to determination by the Internal Revenue Service as to whether they are reasonable for tax purposes.

As provided by Congress (12 U.S.C. 1138c), the production credit associations are instrumentalities of the United States and, while the United States holds any class A stock in such an association, it is exempt from taxation—Federal and State—except that any real property and any tangible personal property is subject to taxation to the

same extent as other similar property is taxed. When a production credit association retires all of its class A stock held by the Government, the association becomes subject to Federal income tax. Since the Government holds class A stock in only 13 of the associations, this means that the other 475 associations out of a total of 488 are now subject to Federal income tax.

The first of the production credit associations to file Federal income tax returns began doing so for 1945. Since then, a question frequently raised by the Internal Revenue Service is whether the amount added by an association to its bad debt reserves is reasonable and should be allowed as a deduction under section 166(c) of the Internal Revenue Code of 1954 in determining the taxable income of the association. In lieu of taking a deduction for debts which actually become worthless within the taxable year, section 166(c) of the Revenue Code provides that "there shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts." If the Internal Revenue Service does not allow deductions for the amounts added to the bad debt reserves, the production credit association may pay the taxes involved under protest and then sue to recover them in a U.S. district court.

In such actions brought by 23 of the associations, the courts allowed the claims of 17 associations in full; in three cases a substantial part of their claims were allowed; and only in three cases were the additions claimed disallowed in total. These decided cases are summarized at pages 77-79 of the hearings on S. 1927 under the heading "Percentages of Outstanding Loans Accepted by Courts as Appropriate for Bad Debt Reserves of Production Credit Associations in Passing on Additions Thereto To Be Allowed as Deductions for Federal Income Tax Purposes." In one case, the court allowed the association accumulated bad debt reserves of only 3 percent of outstanding loans even though more was claimed. For other associations, accumulations as high as 4.09, 3.76, 4.15, 3.88, 4.33, 4.65, 4.76, and 4.49 percent of outstanding loans were allowed by the courts as bad debt reserves. Smaller accumulations were involved for most of the associations because they had not yet built up their reserves any further for the years in dispute. Inasmuch as such court decisions now have delineated what are deemed reasonable bad debt reserves for the production credit associations, it is considered that the associations should not have to continue to resort to court actions to sustain deductions made for bad debt reserves. Such a procedure is costly and time consuming not only to the associations but also to the United States which is represented by the Department of Justice in such actions. The reasons for specifying in the law the amounts which the production credit associations are to add to their bad debt reserves each year were gone into at length in the hearings on S. 1927 (pp. 4, 22, 52-53, 69-82).

A report filed by the Treasury Department opposes enactment of section 2(2) of S. 1927 as originally introduced, to the extent that it is intended to affect the amount of allowable additions to reserves under section 166(c) of the Internal Revenue Code. The Treasury Department report includes the following:

In summary, it appears that appropriate bad debt reserves for production credit associations can best be resolved on an administrative basis; that the proposed statutory 5 percent

reserve ceiling cannot be justified from the viewpoint of a logical and equitable application of the income tax law even when taking into account the large loss experience of lending institutions during the economic collapse of the 1930's; and that enactment of a 5 percent reserve ceiling for production credit associations, if used as a precedent for comparable lending institutions, would entail revenue losses substantially in excess of \$1 billion.

In the opinion of the committee, the amount of bad debt reserves for production credit associations should not be left entirely for administrative determination. Instead of the statutory 5 percent reserve ceiling originally proposed, though, the committee would amend the Farm Credit Act of 1933 to specify that the production credit associations are required to build up their bad debt reserves to 3½ percent of outstanding loans and may, but are not required to, make additions beyond such 3½ percent. The intention is that the required reserves up to 3½ percent of outstanding loans would be allowed as reasonable for Federal income tax purposes and that the Internal Revenue Service would continue to decide whether any voluntary additions beyond such 3½ percent shall be so allowed. The required reserves of 3½ percent of outstanding loans are well within the accumulations allowed by the courts for the production credit associations. Such is the purpose of section 2(2) as amended by the committee. It of course need not be viewed as a precedent for other institutions which are not comparable either in their lending or their court experience as to what are reasonable bad debt reserves. In any event, however the tax loss is estimated if the statutory formula proposed for the production credit associations were applied to other institutions, there is in principle no ground for any claim that it will result in any appreciable tax loss as respects the production credit associations. This is because the statutory formula being proposed is considered to allow the production credit associations no greater tax-free bad debt reserves than was delineated as reasonable in the court decisions and anything above 3½ percent of outstanding loans would continue to be subject to allowance by the Internal Revenue Service. Also to be kept in mind is that obtaining the same formula by litigation rather than by legislation would involve the expenses of the association in the litigation which would be deductible as an operating expense, not to mention the expense to the Government on the other side of the litigation. The amendment proposed by section 2 (2) will resolve an issue which is better eliminated so that the associations may concentrate on their purpose of making loans to farmers and ranchers.

Section 2(3) : *To permit retirement of interests in a bank for cooperatives held by present or former borrower which is being liquidated or dissolved.* Cooperative associations borrowing from a bank for cooperatives acquire certain interests in the bank while they are such borrowers. Such interests include class C stock in the bank which a borrower is required to purchase (12 U.S.C. 1134d(a) (3)) for which is issued to a borrower as a patronage refund (12 U.S.C. 1134l(b)). A borrower is also allocated an interest in the surplus and contingency reserves of the bank on the basis of its patronage (12 U.S.C. 1134l(a)), which interest eventually is payable to the borrower in class C stock of

the bank (12 U.S.C. 1134l (a), (b)). The class C stock of the bank may not be retired until after all class A (Government) stock is retired, and all class B (investment) stock of the same and earlier fiscal years is retired (12 U.S.C. 1134d(a)(3)). Except in a case where a borrower holding such interests defaults (12 U.S.C. 1134d(c)), it will be some years before such interests are retired and the proceeds can be paid to the holders.

If a cooperative association which was a borrower from a bank for cooperatives liquidates or dissolves without transferring such interests to another eligible holder, the bank would need for many years to carry such interests in the name of an association no longer in existence. Further, when such interests are retired, there will be no owner to which the proceeds may be paid. To avoid such a result, it is proposed that the bank should be permitted to retire and cancel such interests so that the books may be cleared of them and the proceeds paid to the cooperative association for disposition with its other assets when it is liquidated or dissolved. Section 2(e) would provide authority to do this in accordance with rules and regulations prescribed by the Farm Credit Administration.

DEPARTMENTAL VIEWS

FARM CREDIT ADMINISTRATION,
Washington, D.C., May 11, 1961.

The Honorable the PRESIDENT OF THE SENATE,
U.S. Senate.

DEAR MR. PRESIDENT: There is transmitted herewith a proposed bill to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes. The seven amendments being suggested will be explained in the order of their numbering in the proposed bill.

AMENDMENTS TO FEDERAL FARM LOAN ACT

Section 1(a)(1): *To permit amortization plan for Federal land bank loans to provide for installments more frequently than semi-annually.* Although a Federal land bank has authority under existing law to make loans on an unamortized or partially amortized basis, loans which are made on an amortization plan are required to include an agreement for repayment by means of "a fixed number of annual or semiannual installments" (12 U.S.C., Supp. II, 771 Second). Repayment on such a plan is not the best which could be adapted to serve part-time and other farmers, such as dairy farmers, whose income is, for example, on a monthly basis. While it is expected that most land bank loans would continue to be made on an annual or a semiannual installment plan, it is deemed desirable to permit repayments more frequently than semiannually where that is more in line with the borrower's income pattern. This would be accomplished by substituting "a fixed number of one or more installments each year" for the words previously quoted in this paragraph.

Section 1(a)(2): *To amend eligibility requirements for Federal land bank loans to farming corporations.* Almost all Federal land bank loans are made to individual farmers but since 1935 the land

banks have been authorized to make loans to corporations, subject to certain limitations. In 1960, only 117 out of a total of 43,404 land bank loans were made to corporations. At first only corporations engaged in the raising of livestock were eligible but in 1955 the law was changed to also permit loans to corporations engaged in general farming operations. Under existing law (12 U.S.C. 771 sixth), a Federal land bank loan may not be made to a corporation (1) unless at least 75 percent in value and number of shares of stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan and (2) unless the owners of a like amount of stock assume personal liability for the loan.

The first of these limitations requires a special investigation as to the activities of the individual stockholders and in some instances has precluded a loan to a corporation of a type which a land bank should be able to serve. The present proposal is to substitute for the first limitation, a requirement that the principal part of the income of the corporation must be derived from farming operations. This would simplify the procedure on corporation applications and yet sufficiently safeguard the types of corporations to which loans may be made.

In lieu of the second limitation in the present law, it is proposed that stockholders assume personal liability for a loan to their corporation to the extent required under rules and regulations prescribed by the Farm Credit Administration. This would afford more flexibility and permit loans to corporations with fewer stockholders assuming personal liability than is now required; but it is expected that full personal liability will always be required of at least one or more of the responsible stockholders.

To effect such proposed changes, the existing law would be amended to provide that no land bank loan shall be made to a corporation engaged in farming operations "unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration."

Section 1(b): *To increase from 5 to 7 years the maximum maturity permitted for loans, advances, or discounts by a Federal intermediate credit bank.* The loans made or discounted by a Federal intermediate credit bank may not have a maturity of more than 5 years from the date made or discounted by the bank (12 U.S.C. 1033). To be eligible for discount at a Federal intermediate credit bank, therefore, the loans made to farmers by the production credit associations and other financing institutions may not have a maturity of more than 5 years at the time of such discount. Section 1 (b) would increase the permissible maturity from 5 to 7 years.

Intermediate-term loans, with maturities of 2 to 5 years have been in demand in most areas, to finance such capital expenditures as purchases of livestock, heavy equipment, improvement of farm buildings such as dairy barns, installation of bulk milk tanks, soil building and conservation practices, and similar items. Experience with such loans has been quite satisfactory. However, the credit banks and production credit associations, from time to time, encounter in-

dividual cases in which a 6- or 7-year maturity is needed to liquidate obligations incurred for capital purposes. It is to be expected that most intermediate-term loans will continue to all within the 2- to 5-year range.

AMENDMENTS TO FARM CREDIT ACT OF 1933

Section 2(a) : *To combine the Federal intermediate credit bank and production credit association revolving funds into a single fund available for the same purposes.* This amendment would combine the revolving fund of \$60 million, which is available for subscriptions to the capital stock of production credit associations, with the revolving fund of \$70 million authorized for subscriptions to the capital stock of the Federal intermediate credit banks, into a single revolving fund of \$130 million, all of which would be available for subscriptions to the capital stock of production credit associations and Federal intermediate credit banks. This is deemed necessary and advisable in order that the fund now available for capitalizing production credit associations, not all of which will be needed by such associations, can be made available to the Federal intermediate credit banks which are expected to require larger capital stock subscriptions than could be made from the separate fund now available to them.

Out of one of the revolving funds the Governor of the Farm Credit Administration currently subscribes to capital stock in a production credit association (12 U.S.C. 1131c, 1131e-1(a), 1131i(a)) when, in addition to the capital which can be obtained from members or other local sources, further capital is needed because of adverse conditions or rapidly increasing loan volume to enable the association to serve the sound credit needs of farmers and ranchers in its territory. Of the \$60 million available for this purpose, only \$880,000 was so invested on March 1, 1961, and for the rest of 1961 the needs for this purpose are estimated at \$2,200,000. This would leave an estimated balance of \$56,920,000 in the production credit association revolving fund on January 1, 1962.

Out of the other revolving fund the Governor currently subscribes to capital stock in the Federal intermediate credit banks (12 U.S.C. 1061 (a)(1), 1131i (e)) when it is necessary because of substantial increases in their business. Under the law, the debentures and similar obligations issued for a Federal intermediate credit bank and other borrowings may not exceed 10 times the surplus and paid-in capital of the bank (12 U.S.C. 1041). Since the funds with which a credit bank makes loans and discounts are obtained through the sale of debentures and other borrowings, it follows that as their business increases and more debentures are issued, the paid-in capital of the bank must be increased in order to stay within the statutory maximum ratio of 10 to 1. As of March 1, 1961, investments in the capital stock of the Federal intermediate credit banks out of this revolving fund totalled \$19,350,000 and it is estimated that an additional \$5,500,000 will be needed for this purpose through the rest of 1961, leaving \$15,150,000 in the fund on January 1, 1962. While this revolving fund is referred to as being \$70 million, only \$40 million has been made available therein, and the increase to \$70 million is to be made with proceeds from the retirement of the last \$30 million of Government-owned stock in the credit banks at January 1, 1957 (12

U.S.C. 1061). Thus far there have been no additions to this revolving fund from such stock retirements.

When the bill which became the Farm Credit Act of 1956 was cleared by the Budget Bureau, the letter from the Director dated March 14, 1956, included the following:

"The aggregate amount of the two revolving funds for the capitalization of the Federal intermediate credit banks and the production credit associations should be held at the present level of \$130 million. An increase in this amount does not appear to be warranted by the estimated future capital requirements of the banks and the production credit associations. There would be no objection, however, to reallocating the amounts in the two funds and providing for an increase in the fund to capitalize the Federal intermediate credit banks, if accompanied by a corresponding decrease in the production credit fund."

This objective would be accomplished by combining the two funds into a single fund which could be used for the purposes for which both funds have heretofore been available.

Section 2(b): *To prescribe amount of reserves for bad debts to be established by production credit associations.* The existing law (12 U.S.C. 1131f(a)) as to how a production credit association shall apply its earnings in excess of operating expenses at the end of each fiscal year, makes no more specific provision for a reserve for bad debts than that "provision for reasonable valuation reserves" shall be included as an operating expense. Thereunder, the present practice is for each production credit association to determine the amount to be added each year to the valuation (bad debt) reserves. It is now proposed to amend the existing law so that each production credit association would be required, in applying its earnings at the end of each fiscal year, to include as an operating expense provision for valuation reserves against loan assets in an amount equal to one-half of 1 percent of loans outstanding at the end of the fiscal year. This would be done to the extent that earnings for the year in excess of other operating expenses permit. No additions are to be made to the valuation reserves which would increase such reserves above 5 percent of loans outstanding at the end of the fiscal year. The amendment is intended to make certain the amount to be so applied; and building up such reserves to 5 percent of loans outstanding at the annual rate of one-half percent of loans outstanding is deemed appropriate and reasonable in the circumstances of such associations generally.

A further purpose of the amendment is to define a reasonable addition to the reserve for bad debts of production credit associations which will be recognized as a deduction under section 166(c) of the Internal Revenue Code of 1954. Under existing law the production credit associations frequently have to resort to court actions to sustain deductions made for bad debt reserves and this has been costly and time consuming not only to the associations but also to the United States which is represented by the Department of Justice in such actions.

Section 2 (c), (d): *To specify that a minimum of 75 percent of the voting rights in cooperative associations be owned by agricultural producers in order for such associations to be eligible for loans from a bank for cooperatives.* The 12 regional banks for cooperatives (12

U.S.C. 1134c) and the Central Bank for Cooperatives (12 U.S.C. 1134j) are authorized to make loans to cooperative associations as defined in the Agricultural Marketing Act, as amended. As there defined (12 U.S.C. 1141j), the term "cooperative association" means an association in which farmers act together in marketing their farm products, purchasing farm supplies, or furnishing farm business services, with a proviso that the association is operated for the mutual benefit of the members thereof as such producers or purchasers. The association must also conform to certain other requirements which are not involved in the present proposal. The present general regulation requires that a bank for cooperatives may not make a loan to a cooperative association unless at least 90 percent of the voting media are held by either producers (individuals, partnerships, or corporations), or other cooperative associations eligible to borrow from a bank for cooperatives. It is now proposed that this voting requirement be reduced to 75 percent or such higher percentage as the board of directors of a bank for cooperatives may determine. Such a change would enable the banks for cooperatives to serve some cooperative associations which are not able to meet the present 90 percent requirement but which are agricultural nonetheless. Section 2 (c), (d) would do this by amending the law to provide that a bank for cooperatives shall not make a loan to a cooperative association unless at least 75 percent, or such higher percent as the board of directors of the bank for cooperatives determines, of the voting rights are held by agricultural producers or other cooperative associations eligible to borrow from such a bank.

Section 2(e): *To permit retirement of interests in a bank for cooperatives held by present or former borrower which is being liquidated or dissolved.* Cooperative associations borrowing from a bank for cooperatives acquire certain interests in the bank while they are such borrowers. Such interests include class C stock in the bank which a borrower is required to purchase (12 U.S.C. 1134d(a)(3)) or which is issued to a borrower as a patronage refund (12 U.S.C. 1134l(b)). A borrower is also allocated an interest in the surplus and contingency reserves of the bank on the basis of its patronage (12 U.S.C. 1134l(a)), which interest eventually is payable to the borrower in class C stock of the bank (12 U.S.C. 1134l(a), (b)). The class C stock of the bank may not be retired until after all class A (Government) stock is retired, and all class B (investment) stock of the same and earlier fiscal years is retired (12 U.S.C. 1134d(a)(3)). Except in a case where a borrower holding such interests defaults (12 U.S.C. 1134d(c)), it will be some years before such interests are retired and the proceeds can be paid to the holders.

If a cooperative association which was a borrower from a bank for cooperatives liquidates or dissolves without transferring such interests to another eligible holder, the bank would need for many years to carry such interests in the name of an association no longer in existence. Further, when such interests are retired, there will be no owner to which the proceeds may be paid. To avoid such a result, it is considered that the bank should be permitted to retire and cancel such interests so that the books may be cleared of them and the proceeds paid to the cooperative association for disposition with its other assets when it is liquidated or dissolved. Section 2(e) would

provide authority to do this in accordance with rules and regulations prescribed by the Farm Credit Administration.

This submission has the approval of the Federal Farm Credit Board and early consideration and enactment of the proposed bill is recommended.

The Bureau of the Budget advises that there is no objection to the presentation of this proposal from the standpoint of the administration's program.

Very truly yours,

R. B. TOOTELL, *Governor.*

TREASURY DEPARTMENT,
Washington, August 7, 1961.

HON. ALLEN J. ELLENDER,
*Chairman, Committee on Agriculture and Forestry, U.S. Senate,
Old Senate Office Building, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in response to your request of June 6, 1961, for this Department's views on S. 1927, a bill to amend the Federal Farm Loan Act and the Farm Credit Act of 1933.

The only amendment proposed by the bill which concerns this Department is one which would amend section 22(a) of the Farm Credit Act of 1933 (12 U.S.C. 1131f(a)) to provide that each production credit association shall make annual additions to a bad debt reserve in an amount equal to 0.5 percent of outstanding loans until the reserve equals 5 percent of outstanding loans. Although this proposed supervisory requirement does not amend the Internal Revenue Code and, under generally accepted legal principles, should have no determinative effect upon amounts which can be deducted as a reasonable addition to bad debt reserves for tax purposes, it is clear that the proponents of this amendment intend it to have the same effect for tax purposes as if it were an amendment to the Internal Revenue Code.

Production credit associations are federally chartered corporations which provide short-term and intermediate-term loans to farmers. Loans by the associations are usually on a budget basis for periods of up to 1 year although some loans for capital purposes are made for intermediate terms up to 5 years. The loans are usually secured by chattel mortgages on crops, livestock, and machinery.

Initially these associations, of which there are now 488, were almost entirely capitalized by the Federal Government and were tax-exempt institutions. This capital was gradually retired as borrowing members and farmers purchased substantial amounts of stock in the associations and, by law, the associations became taxable as ordinary corporations when the Government capital was retired. As of December 31, 1960, only 20 of the 488 associations were not entirely member-owned.

The production credit associations obtain funds at a relatively low rate of interest by rediscounting loans with the Federal intermediate credit banks. These intermediate credit banks are primarily capitalized with funds of the U.S. Government and obtain money at favorable rates by issuing debentures to public investors.

At the present time, the production credit associations have total capital stock and surplus of about \$300 million which amounts to about 17 percent of total outstanding loans of about \$1.7 billion. In addition, as of June 30, 1960, the associations had made provision for bad debt losses in the amount of \$27.5 million, or about 1.6 percent of outstanding loans. For the calendar year 1959, the production credit associations made provision for bad debt losses of \$6.7 million, had net earnings before Federal and other income taxes of \$12.2 million, and earnings after such taxes of \$9.9 million.

In recent years the production credit associations have been involved in a considerable amount of litigation concerning their allowable bad debt reserves for Federal income tax purposes. The details of this litigation are set forth in the report of the recent hearings on S. 1927 held on June 6, 9, and 14, 1961.

Section 166(c) of the Internal Revenue Code provides that, in lieu of taking a tax deduction for debts when they become worthless or partially worthless, a taxpayer shall be allowed (in the discretion of the Secretary or his delegate) a deduction for a reasonable addition to a reserve for bad debts. The purpose of this bad debt reserve provision is to provide a more accurate computation of taxable income by permitting taxpayers to take tax deductions gradually in advance for reasonably anticipated bad debt losses.

The recent litigation appears to have developed because the Internal Revenue Service permitted the production credit associations to make an annual addition to their bad debt reserves based upon the particular association's own average loss experience, with a reserve ceiling of three times such average loss experience. This formula is similar to the reserve formula accorded by a Service ruling to commercial banks except that the Service did not permit the associations to take into account the heavy loss experience of other lending institutions for the period prior to the organization of the production credit associations in 1934.

The bad debt loss experience of the production credit associations since their organization to December 31, 1959, including provision for estimated losses at December 31, 1959, averaged 0.24 percent of cash advanced. However, the provision for estimated losses at December 31, 1959, totaled \$26.7 million, as compared with actual losses over a 25-year period of only \$15.6 million, so that actual losses over such period amounted to only 0.09 percent of total cash advanced.

A study of the risk problems of production credit associations from 1934 to the end of 1950 shows the highest losses (actual plus estimated) occurred in 1938 when they amounted to 0.88 percent of average amount of loans outstanding.¹ Although loss experience varied among the 12 districts during the 1934-50 period, the highest loss rate was 0.33 percent in the Springfield district, and the loss rate in the Omaha district was only one-hundredth of 1 percent. Only 8 of the 688 associations organized had been placed in liquidation because of actual or anticipated losses. These eight associations were placed in liquidation during the years 1935-38 and their loss on loans amounted to 5.2 percent.

¹ "Risk Problems of Production Credit Associations," Farm Credit Administration, Washington, D.C., Bulletin CR-5, January 1952.

Another study of the production credit associations indicates that the heaviest losses of the associations occurred during the first few years after organization in 1934 because a large number of associations were organized on a "crash program" basis and many poor loans were made before much educational and training work was possible. Because of lack "of experience and with sound loaning policies not well established at that time, many mistakes were made."²

Because the loss experience of the production credit associations generally has been very good throughout their existence, the reserves allowed by the Service frequently were less than 1 percent of outstanding loans, although in some instances particular institutions were allowed reserves in excess of 3 percent of outstanding loans. In the courts, several production credit associations have been allowed substantially higher bad debt reserves than those accorded by the Service because the associations were permitted to take into account the large loss experience of other lending institutions during the economic collapse of the early 1930's.

There is some indication that at the present time the Department of Justice, in settling pending litigation, is permitting production credit associations to utilize the bad debt reserve formula applicable to commercial banks and also is allowing associations to take into account the loss experience of other comparable lending institutions during the early 1930's. The National Office of the Internal Revenue Service is now reconsidering its prior position on this matter.

The bad debt reserve formula applicable to commercial banks is the most liberal reserve formula accorded to any taxable corporation because most business institutions must compute bad debt reserves based upon their own recent experience and are not permitted to take into account loss experience resulting from the economic collapse of the 1930's. (The special statutory reserve formula applicable to mutual savings banks and savings and loan associations cannot be considered a true bad debt reserve. See "Treasury Department Report of July 1961 on the Taxation of Mutual Savings Banks and Savings and Loan Associations," a copy of which is attached.) A statutory 5 percent bad debt reserve formula would give to a large number of associations a bad debt reserve which would be more than double the reserve allowable under the very generous commercial bank formula. This would result in a substantial understatement of taxable income, with a consequent loss in Federal revenue.

At the present time, the average reserve ceiling of commercial banks employing the bad debt reserve formula amounts to 2.4 percent of eligible loans. It is estimated that, if a 5 percent reserve ceiling were applied to commercial banks, the consequent loss to Federal revenues would amount to well over \$1 billion over a short period of time, plus a substantial continuing revenue loss as the banks increased their outstanding loans.

In summary, it appears that appropriate bad debt reserves for production credit associations can best be resolved on an administrative basis; that the proposed statutory 5 percent reserve ceiling cannot be justified from the viewpoint of a logical and equitable application of the income tax law even when taking into account the large loss experi-

² C. R. Arnold, "1933-58 Farmers Build Their Own Production Credit System," Farm Credit Association, Circular E-45, August 1948.

ence of lending institutions during the economic collapse of the 1930's; and that enactment of a 5 percent reserve ceiling for production credit associations, if used as a precedent for comparable lending institutions, would entail revenue losses substantially in excess of \$1 billion.

In view of the foregoing, the Treasury Department opposes the enactment of the bad debt reserve provision contained in S. 1927 to the extent that such provision is intended to affect the amount of allowable additions to reserves under section 166(c) of the Internal Revenue Code. However, the Department expresses no position as to the merits of the reserve provision contained in S. 1927 if it should be proposed for enactment solely as a supervisory requirement unrelated to the deduction of additions to bad debt reserves for Federal income tax purposes and if the congressional intent to this effect is clearly specified.

The Bureau of the Budget has advised the Treasury Department that there is no objection from the standpoint of the administration's program to the presentation of this report.

Sincerely yours,

STANLEY S. SURREY, *Assistant Secretary.*

CHANGES IN EXISTING LAW

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman) :

FEDERAL FARM LOAN ACT

TITLE I.—FEDERAL FARM LOANS

SEC. 12. * * *

* * * * *

Second. Every such mortgage shall contain an agreement providing for the repayment of the loan on an amortization plan by means of [a fixed number of annual or semiannual installments] *a fixed number of one or more installments each year* sufficient to cover, first, a charge on the loan at a rate not exceeding the interest rate in the last series of farm loan bonds issued by the land bank making the loan; second, a charge for administration and profits at a rate not exceeding, except with the approval of the Governor of the Farm Credit Administration, 1 per centum per annum on the unpaid principal, said two rates combined constituting the interest rate on the mortgage; and, third, such amounts to be applied on the principal as will extinguish the debt within a agreed period, not less than five years nor more than forty years: *Provided*, That after five years from the date upon which a loan is made the mortgagor may, upon any regular installment date, make in advance any number of payments or any portion thereof on account of the principal of his loan as provided by his contract or pay the entire principal of such loan, under the rules and regulations of the Farm Credit Administration: *And provided further*, That under the rules and regulations of the Farm Credit Administration any land

bank may agree, at the time a loan is made or thereafter, that the mortgagor may make such payments or portions of payments in advance or pay the entire principal of such loan during the first five years the loan is in effect: *And provided further*, That any land bank may make loans on an unamortized or partially amortized basis, under rules and regulations issued by the Farm Credit Administration.

* * * * *

Sixth. No such loan shall be made to any person who is not at the time, or shortly to become, engaged in farming operations or to any other person unless the principal part of his income is derived from farming operations. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased. As used in this paragraph (1) the term "person" includes an individual or a corporation engaged in farming operations; and (2) the term "corporation" includes any incorporated association; but no such loan shall be made to a corporation [(A) unless all the stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan, except in a case where the Farm Credit Administration permits the loan if at least 75 per centum in value and number of shares of the stock of the corporation is owned by the individuals personally actually so engaged, and (B) unless the owners of at least 75 per centum in value and number of shares of the stock of the corporation assume personal liability for the loan.] *unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration.* No loan shall be made to any corporation which is a subsidiary of, or affiliated (either directly or through substantial identity of stock ownership) with, a corporation ineligible to procure a loan in the amount applied for.

* * * * *

TITLE II.—FEDERAL INTERMEDIATE CREDIT BANKS

* * * * *

SEC. 202. * * *

* * * * *

(c) Loans, advances, or discounts made under this section shall have a maturity at the time they are made or discounted by the Federal intermediate credit bank of not more than [five] *seven* years. Any Federal intermediate credit bank may in its discretion sell loans or discounts made under this section, with or without its endorsement and any Federal intermediate credit bank may in its discretion purchase such loans or discounts with or without such endorsement.

* * * * *

FARM CREDIT ACT OF 1933

* * * * *

SEC. 5. (a) There is hereby created a revolving fund of not to exceed \$60,000,000 which shall be made up as follows:

* * * * *

(e) The amount of all balances, collections, and appropriations allocated under subsection (a) to the revolving fund created thereunder, which is in excess of \$120,000,000, is hereby made available to the Governor of the Farm Credit Administration for the establishment of a revolving fund of not to exceed \$70,000,000. Out of such revolving fund, the Governor is authorized to allocate and, with the approval of the Secretary of the Treasury, to expend such amounts as he deems necessary for subscriptions to the capital stock of Federal Intermediate Credit Banks.

(f) *The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection.*

* * * * *

SEC. 22. (a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings *for such year* in excess of operating expenses (including provision for [reasonable valuation reserves) during such fiscal year], *valuation reserves against loan assets in an amount equal to one-half of 1 per centum of loans outstanding at the end of the fiscal year, to the extent that earnings for the year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made)* first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the Federal intermediate credit bank.

* * * * *

SEC. 36. * * *

* * * * *

(d) *Notwithstanding any other provision of this Act, in the case of liquidation or dissolution of any present or former borrower from a bank for cooperatives, the bank, may, in accordance with rules and regulations prescribed by the Farm Credit Administration, retire and cancel any capital stock or allocated surplus and contingency reserves or other equity interest, in the bank owned by such borrower at the fair book value thereof, not exceeding par, and, to the extent required, corresponding shares and allocations or other equity interests held by the regional bank in the central bank shall be retired.*

* * * * *

87TH CONGRESS
1ST SESSION

S. 1927

[Report No. 1112]

IN THE HOUSE OF REPRESENTATIVES

AUGUST 22, 1961

Referred to the Committee on Agriculture

SEPTEMBER 5, 1961

Committed to the Committee of the Whole House on the State of the Union
and ordered to be printed

AN ACT

To amend further the Federal Farm Loan Act and the Farm
Credit Act of 1933, as amended, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 That (a) section 12 of the Federal Farm Loan Act, as
4 amended (12 U.S.C. 771), is amended—

5 (1) by substituting “a fixed number of one or more
6 installments each year” for “a fixed number of annual
7 or semiannual installments” in paragraph “Second”
8 thereof; and

9 (2) by substituting in the fourth sentence of para-
10 graph “Sixth” thereof the following for all that comes
11 after “but no such loan shall be made to a corporation”:

1 “unless the principal part of its income is derived from
2 farming operations and unless owners of stock in the
3 corporation assume personal liability for the loan to the
4 extent required under rules and regulations prescribed
5 by the Farm Credit Administration.”.

6 (b) Section 202 (c) of the Federal Farm Loan Act,
7 as amended (12 U.S.C., supp. II, sec. 1033), is amended
8 by changing the word “five” to the word “seven”.

9 SEC. 2. The Farm Credit Act of 1933, as amended, is
10 amended—

11 (1) by adding the following subsection to section 5
12 thereof (12 U.S.C. 1131i) :

13 “(f) The revolving funds created by subsections (a)
14 and (e) of this section are hereby combined into a single
15 revolving fund which shall be available for all purposes
16 for which both such funds were heretofore available, and
17 reference in any provision of law to the revolving fund
18 created by said subsection (a) or said subsection (e) shall
19 be deemed a reference to the single revolving fund created
20 by this subsection.”;

21 (2) by changing section 22 (a) thereof (12 U.S.C.
22 1131f(a)) to read:

23 “(a) Each production credit association shall, at the end
24 of each fiscal year, apply the amount of its earnings for such
25 year in excess of operating expenses (including provision

1 for valuation reserves against loan assets in an amount equal
2 to one-half of 1 per centum of loans outstanding at the end of
3 the fiscal year, to the extent that earnings for the year in
4 excess of other operating expenses permit, until such re-
5 serves equal or exceed $3\frac{1}{2}$ per centum of loans outstanding
6 at the end of the fiscal year beyond which $3\frac{1}{2}$ per centum
7 further additions to such reserves are not required but may
8 be made), first, to the restoration of the impairment, if any,
9 of capital; and, second, to the establishment and mainte-
10 nance of a surplus account, the minimum amount of which
11 shall be prescribed by the Federal intermediate credit bank.”;
12 and

13 (3) by adding the following subsection to section 36
14 thereof (12 U.S.C. 1134l) :

15 “(d) Notwithstanding any other provision of this Act,
16 in the case of liquidation or dissolution of any present or
17 former borrower from a bank for cooperatives, the bank,
18 may, in accordance with rules and regulations prescribed by
19 the Farm Credit Administration, retire and cancel any capi-
20 tal stock or allocated surplus and contingency reserves or
21 other equity interest, in the bank owned by such borrower
22 at the fair book value thereof, not exceeding par, and, to
23 the extent required, corresponding shares and allocations

1 or other equity interests held by the regional bank in the
2 central bank shall be retired.”.

Passed the Senate August 21, 1961.

Attest:

FELTON M. JOHNSTON,

Secretary.

87TH CONGRESS
1ST SESSION

S. 1927

[Report No. 1112]

AN ACT

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

AUGUST 22, 1961

Referred to the Committee on Agriculture

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Digest of CONGRESSIONAL PROCEEDINGS

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

OFFICE OF
BUDGET AND FINANCE
(For information only;
should not be quoted
or cited)

CONTENTS

Issued September 19, 1961
For actions of September 18, 1961
87th-1st, No. 164

Appropriations.....	9,24,33
Area redevelopment.....	20
Botanic gardens.....	17
Easements.....	18
Education.....	8
Electrification.....	28
Farm loans.....	2
Farm program.....	20,35
Feed grains.....	5
Fish flour.....	27
Food for peace.....	30
Foreign aid.....	13
Foreign trade.....	23
Forestry research.....	34
Lands.....	18,22
Legislative accomplishments.....	26
Legislative program.....	19
Meatpackers.....	32

Peace Corps.....	7,31
Personnel.....	6,14,21
Poultry.....	3
Purchasing.....	12
Recreation.....	11
Rice.....	4
Sugar.....	25
Supergrades.....	6
Trademarks.....	15
Twine imports.....	23
Virgin Islands.....	29
Water compacts.....	16
Watersheds.....	10
Wheat.....	1

HIGHLIGHTS: House passed bills to: Permit wheat producers to withdraw from stored excess for under-production; exempt durum wheat in certain California counties from allotments and quotas; provide additional supergrades; clarify and simplify operations of Farm Credit agencies. House rejected bill to permit farms on which summer fallow is practiced to participate in feed grains program. Rep. Elliott introduced and discussed poultry bill.

HOUSE

- 1. WHEAT.** Passed as reported S. 1107, to continue to exempt the production of durum wheat in portions of Modoc and Siskiyou Counties, Calif. (Tulelake area), from acreage allotments and marketing quota restrictions. p. 18824
Passed as reported H. R. 8842, to amend the Agricultural Act of 1961 so as to permit a wheat producer to withdraw from his stored excess the amount of wheat by which he fails to make his normal production on the reduced acreage allotment, less the acres voluntarily retired below the allotment. p. 18826
- 2. FARM LOANS.** ~~Passed as reported S. 1040, to abolish the Federal Farm Mortgage Corporation. pp. 18823-4~~
Passed without amendment S. 1927, to make a number of amendments to simplify and clarify the operations of institutions supervised by FCA. This bill will now be sent to the President. p. 18904
- 3. POULTRY.** Passed as reported H. R. 7866, to extend the Poultry Products Inspection Act to Puerto Rico and the Virgin Islands. p. 18823

4. RICE. Passed without amendment H. R. 9013, to provide for the transfer of rice acreage history where a producer withdraws from the production of rice. pp. 18826-7
- *
5. FEED GRAINS. By a vote of 213 to 149, defeated a motion to pass under suspension of the rules H. R. 3914, to permit producers on farms on which summer fallow is a normal practice to plant barley on land devoted to summer fallow during 1961 which is diverted from wheat under the 1962 Wheat Stabilization Program provided an overall reduction of 20% is made in corn, grain sorghums, and barley. pp. 18826-18855-61
6. SUPERGRADES. By a vote of 305 to 53, passed under suspension of the rules H. R. 7377, to increase the limitation on the number of supergrades, and on the number of research and development positions of scientists and engineers for which special rates of pay are authorized. pp. 18861-5, 18865-70
7. PEACE CORPS. Conferees were appointed on H. R. 7500, to provide for a Peace Corps. pp. 18817-8
The "Daily Digest" states that "Conferees, in executive session, agreed to file a conference report on the differences between the Senate- and House-passed versions of H. R. 7500, providing for the establishment of a Peace Corps." p. D871
8. EDUCATION. Passed without amendment H. R. 9053, to amend the National Defense Education Act to provide that loans made under title II will be made for the academic year rather than the fiscal year. p. 18826
By a vote of 342 to 18, passed under suspension of the rules (in lieu of H. R. 8900) S. 2393, to extend for 2 years the authority for Federal assistance for the construction and operation of schools in federally impacted areas and the National Defense Education Act. pp. 18831-4
9. APPROPRIATIONS. Received the conference report on H. R. 8302, the military construction appropriation bill (H. Rept. 1201). pp. 18850-1
10. WATERSHEDS. Passed as reported H. R. 3801, to authorize the Secretary of the Army and the Secretary of Agriculture to make joint investigations and surveys of watershed areas for flood prevention or the conservation, development, utilization, and disposal of water. pp. 18818-20
11. RECREATION. Passed as reported H. R. 4934, to authorize the Secretary of Agriculture to modify certain leases entered into for the provisions of recreation facilities in reservoir areas. p. 18904
12. PURCHASING. Passed without amendment H. R. 8741, to grant to all Federal agencies the authority to waive performance and payment bonds otherwise required under the Miller Act with respect to cost-plus-a-fixed fee and cost-type contracts for the construction, alteration, or repair of building or public works and with supply contracts. p. 18830
13. FOREIGN AID. Passed without amendment H. R. 7791, to provide for the collection and publication of foreign commerce and trade statistics. pp. 18827-8
14. PERSONNEL. Passed without amendment H. R. 8565, to amend Public Law 763, 83d Congress, so as to permit firefighters to voluntarily elect to be paid at the

*Although a majority voted for the bill, a two-thirds majority is necessary under a motion to suspend.

GENERAL LEAVE TO EXTEND
REMARKS

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that all Members may have the privilege of extending their remarks in the RECORD on Senate Concurrent Resolution 49, and on the life and services of the late Dag Hammarskjöld.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

AMENDMENTS TO FARM CREDIT
LAWS

Mr. POAGE. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (S. 1927) to amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas [Mr. POAGE]?

There being no objection, the Clerk read the Senate bill as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 12 of the Federal Farm Loan Act, as amended (12 U.S.C. 771), is amended—

(1) by substituting "a fixed number of one or more installments each year" for "a fixed number of annual or semiannual installments" in paragraph "Second" thereof; and

(2) by substituting in the fourth sentence of paragraph "Sixth" thereof the following for all that comes after "but no such loan shall be made to a corporation": "unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration."

(b) Section 202(c) of the Federal Farm Loan Act, as amended (12 U.S.C., supp. II, sec. 1033), is amended by changing the word "five" to the word "seven".

SEC. 2. The Farm Credit Act of 1933, as amended, is amended—

(1) by adding the following subsection to section 5 thereof (12 U.S.C. 1131i):

"(f) The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection."

(2) by changing section 22(a) thereof (12 U.S.C. 1131f(a)) to read:

"(a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings for such year in excess of operating expenses (including provision for valuation reserves against loan assets in an amount equal to one-half of 1 per centum of loans outstanding at the end of the fiscal year, to the extent that earnings for the year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made), first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of

which shall be prescribed by the Federal intermediate credit bank."; and

(3) by adding the following subsection to section 36 thereof (12 U.S.C. 1134i):

"(d) Notwithstanding any other provision of this Act, in the case of liquidation or dissolution of any present or former borrower from a bank for cooperatives, the bank, may, in accordance with rules and regulations prescribed by the Farm Credit Administration, retire and cancel any capital stock or allocated surplus and contingency reserves or other equity interest, in the bank owned by such borrower at the fair book value thereof, not exceeding par, and, to the extent required, corresponding shares and allocations or other equity interests held by the regional bank in the central bank shall be retired."

The bill was ordered to be read a third time, was read the third time and passed, and a motion to reconsider was laid on the table.

RENEGOTIATION OF COMMERCIAL
LEASES

Mr. STUBBLEFIELD. Mr. Speaker, I ask unanimous consent for the immediate consideration of the bill (H.R. 4934) to authorize the Secretary of Agriculture to modify certain leases entered into for the provision of recreation facilities in reservoir areas.

The Clerk read the title of the bill.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Kentucky?

Mr. HALLECK. Mr. Speaker, reserving the right to object, may I ask the gentleman from what committee this bill comes?

Mr. STUBBLEFIELD. From the Committee on Agriculture.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Kentucky?

There being no objection, the Clerk read the bill as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Chief of Forest Service, under the supervision of the Secretary of Agriculture, is authorized to amend any lease entered into before November 1, 1956, providing for the construction, maintenance, and operation of commercial recreational facilities at a water resource development project under the jurisdiction of the Secretary of Agriculture so as to provide for the adjustment, either by increase or decrease, from time to time during the term of such lease of the amount of rental or other consideration payable to the United States under such lease, when and to the extent he determines such adjustment or extension to be necessary or advisable in the public interest. No adjustment shall be made under the authority of this Act so as to increase or decrease the amount of rental or other consideration payable under such lease for any period prior to the date of such adjustment.

With the following committee amendments:

Page 1, line 3, strike out "Chief of Forest Service, under the supervision of the".

Page 1, line 4, delete the comma after the word "Agriculture".

Page 1, line 5, strike out the words "before November 1, 1956," and insert "with respect to lands under the jurisdiction of the Forest Service".

Page 1, lines 7 and 8, strike out "water resource development project under the

jurisdiction of the Secretary of Agriculture" and insert "Federal reservoir project".

Page 2, line 3, strike out "or extension".

The committee amendments were agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time and passed, and a motion to reconsider was laid on the table.

TO AMEND THE DISTRICT OF CO-
LUMBIA UNEMPLOYMENT COM-
PENSATION ACT, AS AMENDED

Mr. McMILLAN. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (H.R. 5968) to amend the District of Columbia Unemployment Compensation Act, as amended, with Senate amendment thereto, disagree to the Senate amendment and request a conference with the Senate.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from South Carolina?

The Chair hears none and, without objection, appoints the following conferees: Messrs. ABERNETHY, JAMES C. DAVIS, ST. GERMAIN, KEARNS, and BROYHILL.

(Mr. LANE asked and was given permission to extend his remarks at this point in the RECORD, and to include extraneous matter.)

[Mr. LANE'S remarks will appear hereafter in the Appendix.]

UNITED SPANISH WAR VETERANS

(Mr. O'HARA of Illinois asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and include a telegram.)

Mr. O'HARA of Illinois. Mr. Speaker, today the surviving veterans of the war of 63 years ago are gathered at Little Rock in Arkansas for the annual encampment of the United Spanish War Veterans. It had been my hope to be with my comrades on this occasion, but the legislative situation has made that impossible. I have wired to the encampment this message, which I am sure reflects the sentiment of all my colleagues in this historic body, where 92 veterans of the war with Spain have served and I remain, the last:

UNITED SPANISH WAR VETERAN ENCAMPMENT,
Adjutant General McELROY,
Marron Hotel,
Little Rock, Ark.:

From the bottom of my heart I greet you in the unconquerable spirit of '98.

For six decades and more the veterans of the war with Spain have kept aflame the fire of patriotism handed down by the veterans of the earlier wars of our Republic.

As the evening deepens, and our ranks diminish, we still stand at attention, saluting Old Glory and proud in the knowledge that always we have kept the faith with our country and her destiny.

Our country, right or wrong, our country, and where the people rule as in our representative democracy and all decisions come from the people there is a stonewall shield against that which is wrong for mankind.

Ours has been an America unafraid of any power on earth however strong in evil design and equally unafraid of any sacrifice

date of enactment of this Act with respect to violations of the Federal Aviation Act or provisions of the certificate or interim authority or the Board's regulations which may have occurred prior to such date. Any sanction which the Board might lawfully have imposed on the operating authority of an air carrier for violations occurring prior to the issuance of an interim certificate or other interim authority under section 7 or the issuance to such carrier of a certificate of public convenience and necessity for supplemental air transportation under section 401 (d) (3) of the Federal Aviation Act may be imposed upon such interim certificate, interim authority or certificate issued to such air carrier.

(c) Any application of an air carrier heretofore consolidated into the Board proceeding known as the Large Irregular Air Carrier Investigation, Docket Numbered 5132 et al., shall be deemed to have been finally disposed of upon the date of enactment of this Act.

SEC. 9. (a) That portion of the table of contents contained in the first section of the Federal Aviation Act of 1958 which appears under the heading "TITLE IV—AIR CARRIER ECONOMIC REGULATION" is amended by adding at the end thereof the following:

"Sec. 417. Special operating authorizations.

"(a) Authority of Board to issue.

"(b) Terms of authorization.

"(c) Procedure."

(b) That portion of the table of contents contained in the first section of the Federal Aviation Act of 1958 which appears under the heading "Sec. 901. Civil Penalties." is amended to read as follows:

"(a) Safety, economic and postal offenses.

"(b) Liens.

Mr. HARRIS. Mr. Speaker, I offer an amendment.

The Clerk read as follows:

Strike out all after the enacting clause of S. 1969 and insert the provisions of H.R. 7318 as just passed.

The amendment was agreed to.

The Senate bill was ordered to be read a third time, was read the third time, and passed.

A similar House bill (H.R. 7318) was laid on the table.

A motion to reconsider was laid on the table.

THE LATE DAG HAMMARSKJOLD

Mr. ALBERT. Mr. Speaker, I ask unanimous consent for the immediate consideration of Senate Concurrent Resolution 49.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Oklahoma?

There being no objection, the Clerk read the Senate concurrent resolution, as follows:

S. CON. RES. 49

Whereas, Dag Hammarskjold, of Sweden, served as Secretary General of the United Nations since April 1953; and

Whereas Mr. Hammarskjold worked tirelessly to strengthen the United Nations as a force for world peace and justice; and

Whereas he served the cause of peace with patience, determination, and courage; and

Whereas his wisdom and leadership for peace won the admiration and respect of peoples throughout the world; and

Whereas Secretary General Dag Hammarskjold gave his life in the service of the United Nations and for the cause of peace: Now, therefore, be it

Resolved by the Senate (the House of Representatives concurring), That our deep

and sincere regrets are expressed to Mr. Hammarskjold's family, to the Swedish Government, and to the United Nations for the loss of a great man and a great soldier for peace.

The Senate concurrent resolution was agreed to.

A motion to reconsider was laid on the table.

Mrs. BOLTON. Mr. Speaker, the untimely death of United Nations Secretary General Dag Hammarskjold has shocked the world. That he should have met death in the pursuit of reconciling hostile factions witnesses to the singular dedication with which he approached his responsibilities.

As Secretary General of the United Nations, Mr. Hammarskjold labored endlessly to conciliate disputes between nations which threatened to erupt into world conflagration. His conception of an active role for the Secretary General inevitably brought him under bitter attack from the Communists, which resulted in Premier Khrushchev's demand last fall that he be replaced by a 3-man committee. It was his support of the United Nations Force in the Congo which disappointed severely Moscow's hopes of continued chaos and early establishment of a satellite government in the heart of Africa.

A man of rare intellectual and literary ability, Dag Hammarskjold's consecrated dedication to his almost impossible job is an example to all the world. We extend heartfelt condolences to his Swedish compatriots, who have now lost two of their greatest statesmen in the service of the United Nations.

Truly the world is diminished by his death, as John Donne's sublime "Meditation No. XVII" comes to mind:

No man is an island, entire of itself;
Every man is a piece of the continent,
A part of the main;
If a clod be washed away by the sea,
Europe is the less,
As well as if a promontory were,
As well as if a manor of thy friend's
Or of thine own were;
Any man's death diminishes me,
Because I am involved in mankind;
And therefore
Never send to know for whom the bell tolls;
It tolls for thee.

Mr. BARRY. Mr. Speaker, with the announcement that the Secretary General of the United Nations, Dag Hammarskjold, is dead we realize that the world at large has lost a friend. He was the outstanding international civil servant of our time. He was a man dedicated to the peace of the world and he possessed the capacity to be an effective instrument for that peace.

What will happen to the position that is now vacant has yet to be determined. It would be a difficult task at any time to find someone to replace such an able administrator. At present, it will no doubt prove even more difficult.

Dag Hammarskjold was the embodiment of the dream that all men will one day live under the rule of law and of reason. His constant concern was for the good of all men. His capacity for impartiality and careful reason was extraordinary. His interest was for the welfare of even the smallest group of

men. The staff of the U.N. Secretariat and of delegation personnel were also on his mind. He offered his strong support for World House, a project for which I have responsibility under the YMCA of Greater New York. It would provide for the recreational and temporary housing needs of U.N. personnel. He had time to discuss with us the very great need that exists and the possible ways of meeting that need.

This man is truly irreplaceable. The whole world will mourn his passing. And indeed it should. In a world torn by clashing interests and irreconcilable ideologies, the loss of a man with the Secretary General's ability to unite, to develop accord, to mediate, to persuade is like the loss of a battalion to a beleaguered army—the army of peace.

Let us hope one thing at least. Let us hope that his life will serve as an inspiration to each of us in every nation to work with our whole will for the kind of world Dag Hammarskjold strived to create, a world of peace and of understanding.

Mr. O'HARA of Illinois. Mr. Speaker, in the years and the centuries to come the name of Dag Hammarskjold will be an inspiration to those whose faith is in peace and for its attainment would give unto the last breath of life. As the chairman of the Subcommittee on Africa, I feel deep concern over the repercussions that will follow his tragic death.

When the Congo attained its independence and there were disturbances that threatened the progress of a new sovereign nation, Secretary General Dag Hammarskjold was intrusted by the United Nations with the great responsibility of both restoring peace and saving the territorial integrity of the new republic. The United Nations troops under his direction were from many nations, mostly African, and none American. He won the plaudits of the world.

Then the bitter denunciation of Khrushchev and his puppets and their loud demands that Dag Hammarskjold should be removed. Dag Hammarskjold stood firm. He was pledged to the mission of peace and the preservation of the territorial integrity of the Republic of the Congo. From that mission he could not be swerved.

Recently came the Katanga episode, and some in the West were beginning to join with Khrushchev in denouncing him. Again he stood firm in the performance of his mission of bringing peace and unity to a new nation and without violation of its territorial integrity. In his mission of peace and of preserving territorial integrity he went, as the dedicated servant of peace and of honor that he was, into an area where he must have known the dangers he faced.

His passing is a loss to the world the extent of which we cannot at this time measure. I have the faith he is now reunited, this prince of peace of our times, reunited in the heavenly home with that Prince of Peace who died on the cross that there should be on earth peace and good will among all men. With bowed head, and a prayer, I shall vote for the pending resolution.

Public Law 87-343
87th Congress, S. 1927
October 3, 1961



An Act

75 STAT. 758.

To amend further the Federal Farm Loan Act and the Farm Credit Act of 1933, as amended, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 12 of the Federal Farm Loan Act, as amended (12 U.S.C. 771), is amended—

Federal Farm
Loan Act, amend-
ment.

39 Stat. 370.

Restriction on
loans.

(1) by substituting “a fixed number of one or more installments each year” for “a fixed number of annual or semiannual installments” in paragraph “Second” thereof; and

(2) by substituting in the fourth sentence of paragraph “Sixth” thereof the following for all that comes after “but no such loan shall be made to a corporation”: “unless the principal part of its income is derived from farming operations and unless owners of stock in the corporation assume personal liability for the loan to the extent required under rules and regulations prescribed by the Farm Credit Administration.”.

(b) Section 202(c) of the Federal Farm Loan Act, as amended (12 U.S.C., supp. II, sec. 1033), is amended by changing the word “five” to the word “seven”.

SEC. 2. The Farm Credit Act of 1933, as amended, is amended—

Farm Credit Act
of 1933, amend-
ment.

(1) by adding the following subsection to section 5 thereof (12 U.S.C. 1131i):

“(f) The revolving funds created by subsections (a) and (e) of this section are hereby combined into a single revolving fund which shall be available for all purposes for which both such funds were heretofore available, and reference in any provision of law to the revolving fund created by said subsection (a) or said subsection (e) shall be deemed a reference to the single revolving fund created by this subsection.”;

Revolving fund.

(2) by changing section 22(a) thereof (12 U.S.C. 1131f(a)) to read:

Application of
earnings.

69 Stat. 663.

“(a) Each production credit association shall, at the end of each fiscal year, apply the amount of its earnings for such year in excess of operating expenses (including provision for valuation reserves against loan assets in an amount equal to one-half of 1 per centum of loans outstanding at the end of the fiscal year, to the extent that earnings for the year in excess of other operating expenses permit, until such reserves equal or exceed 3½ per centum of loans outstanding at the end of the fiscal year beyond which 3½ per centum further additions to such reserves are not required but may be made), first, to the restoration of the impairment, if any, of capital; and, second, to the establishment and maintenance of a surplus account, the minimum amount of which shall be prescribed by the Federal intermediate credit bank.”; and

Earnings and
reserves.
69 Stat. 658.

(3) by adding the following subsection to section 36 thereof (12 U.S.C. 11341) :

“(d) Notwithstanding any other provision of this Act, in the case of liquidation or dissolution of any present or former borrower from a bank for cooperatives, the bank, may, in accordance with rules and regulations prescribed by the Farm Credit Administration, retire and cancel any capital stock or allocated surplus and contingency reserves or other equity interest, in the bank owned by such borrower at the fair book value thereof, not exceeding par, and, to the extent required, corresponding shares and allocations or other equity interests held by the regional bank in the central bank shall be retired.”.

Approved October 3, 1961.